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Samuel P. Huntington

COPING WITH THE LIPPMANN GAP

"Foreign policy," wrote Walter Lippmann in 1943 in an oft-quoted phrase, "consists in bringing into balance, with a comfortable surplus of power in reserve, the nation's commitments and the nation's power."[1] If this balance exists, the foreign policy will command domestic support. If commitments exceed power, insolvency results which generates deep political dissension.

American foreign policy, Lippmann argued, had evolved through three phases. Insolvency and inconstancy in foreign policy coupled with dissension over foreign policy existed between 1789 and 1823. American foreign policy then became solvent; U.S. commitments were limited to the western hemisphere and underwritten by the "concert with Great Britain" and the British fleet.

In the late nineteenth century the extension of American interests and commitments in the Pacific began to erode this solvency. The U.S. defeat of Spain and acquisition of the Philippines in 1898 ended it. In Lippmann's view, a period of foreign policy "bankruptcy" then ensued in which the United States refused to recognize and accept the consequences of its new interests. American policy during these years was based on a series of mirages: peace, disarmament, no entangling alliances, collective security. The results were Hitler's conquest of continental Europe and the Japanese conquest of East Asia. To reverse both required a world war.

Writing in the midst of that war, Lippmann was, of course, concerned whether a new foreign policy balance could be constructed for the postwar world. American foreign policy did become solvent in the postwar years, although not exactly in the way Lippmann anticipated. That solvency was based on the overwhelming economic and military power of the United States compared to other countries, its continued close association with Great Britain and France, and the rapid recovery of

[1] Walter Lippmann, *U.S. Foreign Policy: Shield of the Republic*, Boston: Little, Brown, 1943, p. 9.

Samuel P. Huntington is Director of The Center for International Affairs at Harvard University.

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Germany and Japan and eventually their equally close association with the United States. For almost a quarter-century after World War II, this combination provided what Lippmann would call a "comfortable surplus of power" abroad and a general consensus on policy at home.

II

This happy situation began, of course, to disintegrate at the end of the 1960s. American foreign policy became, in Lippmann's term, insolvent, with commitments exceeding power. This shift was the product of four developments.[2]

First and most obviously, the power of other countries increased relative to that of the United States. The Soviet Union achieved at least parity with the United States in strategic nuclear capabilities, thereby raising doubts as to the credibility of American nuclear deterrence in Europe. The Soviets created a blue-water navy and the air- and sea-lift capacity to project their forces into many regions in Africa and Asia. During the 1970s they modernized their forces in central Europe, increasing their capability to launch a short-notice attack on NATO. Soviet military spending during most of the 1970s grew at three to four percent a year; U.S. military spending declined for most of that decade. In addition new centers of economic power emerged, most notably Japan and Germany, but on a lesser scale among the newly industrializing nations of the Third World. For much of the 1970s the increased dependence of the United States and its industrialized allies on Persian Gulf oil enhanced the financial power of Saudi Arabia and other OPEC countries. The social mobilization of populations in Third World countries made it increasingly difficult for the United States and other outside powers to influence the politics of those countries.

Second, U.S. commitments in Southeast Asia declined with its defeat in Vietnam, but U.S. interests in and commitments to Southwest Asia expanded tremendously. The importance of Persian Gulf oil plus the apparent threats to the security of that oil from the Soviet Union, local states such as Iran, and terrorist and insurgent groups led in 1980 to the proclamation

[2] For other discussions of the Lippmann gap problem see: Joseph S. Nye, Jr., "U.S. Power and Reagan Policy," *Orbis*, Summer 1982, pp. 391–411; Jeffrey Record, *Revising U.S. Military Strategy: Tailoring Means to Ends*, Washington: Pergamon-Brassey's, 1984; Eliot A. Cohen, "When Policy Outstrips Power," *The Public Interest*, Spring 1984, pp. 3–19; David C. Hendrickson, *The Future of American Strategy*, New York: Holmes & Meier, 1987.

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of the Carter Doctrine, committing the United States to use any means, including military force, to prevent the Persian Gulf area from coming under the control of an outside force. While the doctrine was ostensibly directed at the Soviet threat, U.S. interests clearly required comparable action against other threats. This policy, reaffirmed by the Reagan Administration, was the most sweeping extension of U.S. commitments in over 25 years and involved a tremendous expansion of demands on U.S. resources.

Third, one previous source of threat to the United States, China, ceased being that in the 1970s. During the decade, however, other sources of threats multiplied. In part this reflected the relative decline of U.S. power vis-à-vis other countries. It also involved, however, the emergence of new sources or potential sources of threats. These included Marxist-Leninist states in the Third World (e.g., Vietnam, Nicaragua, Ethiopia), Marxist-Leninist insurgencies in countries allied with the United States (El Salvador, the Philippines), radical Islamic states (Iran, Libya), and what seemed to be proliferating Islamic and Marxist terrorist groups. As the United States came increasingly to realize, military forces designed for the "big war" with the Soviet Union were not necessarily well prepared to deal with these lesser threats.

Fourth, the societal or domestic constraints on the development and use of U.S. power tightened significantly during the 1970s. Military spending declined, the procurement of new weapons was delayed or canceled, the quality of military personnel deteriorated. In the early 1970s much was made in intellectual and political circles of the declining utility of military force, and legislation such as the War Powers Act and the Clark Amendment attempted to limit its use. Covert action was attacked; intelligence agencies lost funds and people. The dramatic rise in congressional power over military and foreign affairs made it increasingly difficult for the executive to make commitments and to act decisively.

The relative decline in American power generated a wide range of analyses and many proposals for moderating if not reversing that decline. What is significant, however, is not the decline vis-à-vis other countries but rather the problem posed by Lippmann of the relation between American power and American commitments. Unlike the decline in relative power, the imbalance in policy can be corrected. The Lippmann gap

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has been and is real, but it is not unyielding. Statesmen can attack it in a variety of ways. They can attempt:

—to redefine their interests and so reduce their commitments to a level which they can sustain with their existing capabilities;

—to reduce the threats to their interests through diplomacy;

—to enhance the contribution of allies to the protection of their interests;

—to increase their own resources, usually meaning larger military forces and military budgets;

—to substitute cheaper forms of power for more expensive ones, thus using the same resources to produce more power;

—to devise more effective strategies for the use of their capabilities, thereby securing also greater output in terms of power for the same input in terms of resources.

The Lippmann gap is not unique to American history. Britain faced this problem in the 1890s and 1900s. Its leaders used a combination of diplomatic and strategic responses to narrow the gap as they perceived it. They did not, however, take the economic measures that might have eliminated it. The overall process of adaptation, Aaron Friedberg points out in his penetrating analysis, was "reflexive and largely unarticulated . . . fragmented and incomplete." They "tried everything they could think of which would shore up their position without forcing them to spend more money."[3]

American responses to its Lippmann gap problem have so far generally tended to parallel the British pattern. These responses began under Nixon, were carried forward by Ford and Carter, and took on new dimensions under Reagan. At times, of course, reversals occurred in the process—most notably in the expansion of American commitments in the Persian Gulf—and the process is clearly "fragmented and incomplete," yet progress has been made. In the first phase under Nixon, Ford and Carter the responses were largely diplomatic; in the second phase under Reagan they also became military and strategic. A third and more difficult phase in which economic responses predominate awaits the future.

All four administrations rejected the possibility of cutting

[3] Aaron L. Friedberg, "Change, Assessment, and Adaptation: Britain and the Experience of Relative Decline, 1895–1905" (Ph.D. dissertation, Harvard University, 1986, to be published as *The Weary Titan* by Princeton University Press in 1988), p. 510.

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American commitments. Congress did reduce U.S. commitments in Indochina in the early 1970s, but this happened over the vigorous objections of the Nixon Administration. So far as one can gather, no administration has seriously considered a reduction in American commitments in Western Europe, East Asia or the western hemisphere. These have been assumed to be fixed and unalterable, and, as we have noted, the Carter Administration added to them new commitments in Southwest Asia.

Nixon, Ford and Carter Administration actions to deal with the Lippmann gap were heavily focused on reducing threats to those interests and on increasing the role of allied powers in protecting American interests. Among the diplomatic efforts to reduce non-Soviet threats, the opening to China by the Nixon Administration initiated what was probably the single most significant diplomatic event of the postwar years. The process of accommodation with China leading to full diplomatic relations in 1978 reduced significantly the potential threats to U.S. interests in Asia and potential demands on U.S. military power in that region. The Nixon and Ford Administrations also capitalized on Anwar al-Sadat's perceptions of Egyptian national interest to negotiate Egypt's realignment, a process again carried forward by the Carter Administration, reaching its culmination in the Camp David accords and the subsequent close association between Egypt and the United States. Somewhat similarly, the Carter Administration successfully concluded the efforts begun under Johnson and continued under Nixon and Ford to resolve the Panama Canal question. These diplomatic achievements significantly reduced the Lippmann gap: consider how different the world would look and what the demands would be on U.S. resources if China were threatening aggression against American interests in Asia, if Egypt were a Soviet ally and military base, and if the Panama Canal were under intermittent attack by guerrilla-terrorists.

The Nixon and Carter Administrations also attempted to increase the contributions of U.S. allies to the common defense. Early in his first term Nixon articulated what came to be known as the Nixon Doctrine, that is, that the United States should rely primarily on regional powers, such as Iran, for the maintenance of regional stability, supporting them with military and economic assistance and, if necessary, U.S. air and naval forces. Like the opening to China, this effort was continued in the Carter Administration with its emphasis on the importance of

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"regional influentials," a tendency which, however, also ran counter to the Administration's concern with human rights and nuclear proliferation. The Carter Administration did nonetheless have some modest success in pressuring the NATO allies and Japan to increase their defense budgets. It also secured the agreement of the NATO allies to the "two-track" decision on intermediate-range nuclear forces (INF) which, in the absence of an arms agreement, would lead to the deployment of U.S. Pershing 2 and cruise missiles in Europe.

In another diplomatic effort, Nixon reopened arms control negotiations with the Soviet Union, which culminated in the 1972 agreements on ballistic missile defenses and strategic offensive weapons. These were carried forward in the Vladivostok and SALT II agreements of the Ford and Carter Administrations. In the present context, these can be seen as efforts to reduce Lippmannesque insolvency by reducing the costs and risks of the nuclear arms competition, Soviet incentives to threaten the United States, and Soviet capabilities to do so.

III

The Reagan Administration's actions affecting the commitments/capabilities gap differed significantly from those of its predecessors. The latter had emphasized diplomacy: with allies, against potential sources of threat, and with the Soviet Union. The Reagan Administration initially stressed the military sphere: the development of U.S. military power, changes in U.S. military strategy, and the use of military force to support diplomacy. Its actions were a second phase in American adaptation to foreign policy insolvency, one which had an increasing impact on American society and politics.

Rhetorical Assertion. First, and temporarily most significant, were the Administration's rhetorical efforts to increase American power. Until it is used, power is what people think it is, and hence perceptions of power are power. The president and other Administration officials went to great lengths to change the images of American weakness that had been prevalent in the 1970s. "America is back," was the slogan of the day. This new portrayal of a self-confident, assertive America changed Soviet, allied and U.S. estimates of U.S. power. Increases in power produced by rhetoric and public relations can be quick and cheap. They are also likely to be fragile and transitory, and the images created by Reagan Administration rhetoric did not last. The Carter Administration ended in an atmosphere

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of "malaise." In its seventh year the Reagan Administration seemed destined to end in a miasma of "decline," and the image of assertion had been replaced by one of deterioration.[4]

Military Buildup. The Reagan Administration greatly accelerated the defense buildup modestly initiated by the Carter Administration. Appropriations for defense increased for six straight years—twice the length of any other peacetime buildup, and military spending more than doubled between fiscal years 1980 and 1986. This made possible the intensified modernization of the strategic forces (including the MX, B-1, cruise missiles, Stealth bomber, Trident II, D-5 missiles, and command and control facilities); the expansion of the navy and the deployment of substantial forces to the Indian Ocean and, eventually, the Persian Gulf; more rapid procurement of tanks and tactical aircraft; increases in readiness and sustainability; and substantial improvements in the quality and training of personnel. During the first years of the Reagan Administration, Congress appropriated the funds for these purposes in part as a result of the hard-sell tactics of Defense Secretary Caspar Weinberger.

Inevitably, these tactics in due course produced a reaction, and in the second Reagan term Congress cut Administration requests significantly. The defense buildup helped fuel both the sustained expansion of the economy and the budget deficit. Despite supply-side theories, the former did not produce the income to counter the latter: between fiscal years 1980 and 1986, revenues increased by less than 50 percent while expenditures increased by two-thirds. This combination produced a 200-percent increase in the annual budget deficit, a major portion of which was quite appropriately attributed to the rise in defense spending.

Balanced Strategy. Significant changes in military strategy occurred during the Reagan Administration. By the late 1970s a striking discontinuity existed in American strategy. At the strategic nuclear level, military strategy and capabilities were exclusively offensive in character. At the conventional level, strategy and capabilities were overwhelmingly defensive in character. This discontinuity made sense when the United States was substantially superior in strategic nuclear capabilities

[4] See Barbara Tuchman, "A Nation in Decline?" *The New York Times Magazine*, Sept. 20, 1987, p. 52ff; Paul Kennedy, "The (Relative) Decline of America," *The Atlantic*, August 1987, pp. 29–38; "The Perfect President," *The Economist*, Oct. 17, 1987, p. 13.

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to the Soviet Union. It makes little sense under conditions of strategic parity.

As a result, by 1980 movements were afoot to revive defenses against nuclear attack; these, of course, were given a distinctive shape and thrust by the president's Strategic Defense Initiative (SDI) proposals in March 1983. At the same time, the Defense Department emphasized the importance, in a general war, of offensive actions against the Soviet homeland, and both the army and the navy modified their existing strategic doctrines in an offensive direction with the Air-Land Battle concept and the Maritime Strategy. By its actions against Grenada and Libya the Administration also underlined its willingness, in appropriate circumstances, to use U.S. military forces offensively in the Third World. The United States thus moved toward a balanced strategy combining offensive and defensive elements at both the nuclear and the conventional levels.

To what extent do these changes ameliorate the commitments/resources gap?

The central goal of American military strategy is to deter attacks on American interests. Deterrence is most effective when it poses a credible threat of retaliation against vital interests of the attacker. A strategy of deterrence hence must be primarily offensive in concept and give priority to offensive forces. At the nuclear level this has long been the case, yet some form of strategic defense may also be desirable as a supplement to offensive forces and as a reinforcement to deterrence. A major SDI program as envisioned by the Administration would be extremely costly; a limited strategic defense need not be.

The shift in American conventional strategy in an offensive direction strengthens conventional deterrence. More offensively oriented plans for the use of conventional forces in either a general war or local conflicts are likely to require additional investments in weapons and supplies. Offensive operations, on the other hand, can be targeted against enemy weaknesses and do not necessarily require larger forces than would be needed for a defensive strategy. In fact, some evidence suggests that in Europe a conventional retaliation strategy could be implemented with smaller forces than those required to mount a successful defense along the inter-German border.

Insurgency Support. During the Reagan years selective support for anticommunist insurgencies (the Reagan Doctrine) became a feature of U.S. policy in the Third World. This

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practice began with help to the Afghan resistance by the Carter Administration, which was expanded by Reagan with the full support of Congress. Congress also repealed prohibitions on assistance to the rebels in Angola, and the Administration began to provide modest help to the more responsible elements of the Cambodian resistance against the Vietnamese. In addition, of course, the Administration strongly supported assistance to the contras in Nicaragua, which received intermittent and limited approval in Congress.

Support for anticommunist insurgents was a natural response to the spread of Marxist-Leninist states in the Third World during the 1970s. The Reagan Doctrine is, in a sense, the Nixon Doctrine turned upside down. Although great controversy existed over the application of the doctrine in Nicaragua, broad bipartisan support existed for aid to the insurgents in the other three cases. Many questions could be and were raised, however, about the overall desirability and ultimate effectiveness of this policy, one obvious problem being the risks to neighboring countries sympathetic to and providing refuge for the insurgents. Yet the policy also provides one cheap and easy way of containing the spread of Soviet influence and/or communism in the Third World. The Soviet army is unlikely to invade Iran so long as it is bogged down in Afghanistan, and until they pacify Cambodia the Vietnamese will think twice before getting militarily involved elsewhere. Cuban involvement in Angola means 35,000 soldiers unavailable to promote Soviet and Cuban aims elsewhere in the Third World. The Sandinistas have to give priority to containing and defeating the contras over exporting revolution to other Central American countries. The fiscal cost to the United States of supporting these insurgencies is less than $1 billion a year, about one-third of one percent of the defense budget; the payoffs in terms of containment are clearly substantial.

Compellent Diplomacy. Preceding administrations had generally attempted to reach agreements with potential adversaries by offering inducements to them to be accommodating. With one notable—and disastrous—exception (Iran), the Reagan Administration generally eschewed this course. In its diplomacy it relied not on conciliation but on compellence: that is, confronting an adversary with the virtual certainty that if he does not negotiate a satisfactory agreement, he will confront a highly unpleasant development in American military programs or in the use of American military force. Agreements can be reached

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as easily and perhaps more easily by making it unattractive to an adversary not to conclude an agreement than by making it attractive to him to conclude one. Agreements are, in this view, produced more by making threats than by making concessions.

The Administration employed compellent diplomacy with both the Soviet Union and Third World adversaries. The INF treaty very probably exacerbates rather than reduces the commitments/capabilities gap, but it is also widely held to be a dramatic success for Reagan diplomacy. Deployment of the Pershing 2s and ground-launched cruise missiles (GLCMs) to Europe brought the Soviets back to the bargaining table. Eventually they conceded almost every demand the Reagan Administration made of them, the only significant counterconcession by the United States being elimination of the Pershing 1A missiles in Germany.

Just why the Soviets made all the concessions they did will probably never be known with certainty; many factors undoubtedly played a role, including the turnover in Soviet leadership. Yet it is hard not to assign some and perhaps major responsibility to Soviet unhappiness at having the INF missiles, particularly the Pershing 2s, on the ground in Europe and targeted at the Soviet Union. Indeed, as a result of Soviet concessions, American arms controllers have found themselves in the embarrassing position of having to be highly enthusiastic about a treaty that apparently resulted from the application of the bargaining chip theory they have consistently denounced.

In somewhat similar fashion the Administration's inauguration of the SDI program clearly stimulated Soviet fears that American technology might produce a defensive system that would once again make a disarming first strike a plausible and perhaps attractive option for American strategy. These concerns over the future strategic weapons balance enhanced Soviet interest in the Strategic Arms Reduction Talks and its desire to link reductions in offensive arms to limitations on defensive developments. Chemical weapons are a possible additional instance of a U.S. weapons program generating Soviet accommodation. In the early 1980s the United States began preparations for production of binary weapons, the chemical warfare budget rising steeply from less than $200 million in 1978 to over $1.1 billion ten years later. During the same period of time, the Soviets retreated from many of their positions in the Geneva chemical warfare negotiations, enhanc-

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ing the prospect that a chemical warfare convention might be achieved.

The use of military force and support for military force reinforced Reagan diplomacy in the Third World. The military actions of the Reagan Administration against Libya, culminating in the air attacks on Tripoli and Benghazi in April 1986, greatly reduced if they did not end Libyan-sponsored terrorist incidents. This appears, as one careful analysis concluded, "to be a success for coercive diplomacy."[5] Somewhat similarly, increased financial support for the contras, their higher levels of military activity, and their more extensive penetration of the Nicaraguan countryside, it seems fair to assume, had something to do with the greater willingness of the Sandinista regime in 1987 to engage in negotiations, at first indirect ones, with their opponents.

Overall, the Administration's compellent diplomacy appears to have worked. In dealing with the Soviet Union, bargaining chips do promote bargaining and may produce bargains. The willingness to use military force, directly or indirectly, has an effect on the behavior of hostile Third World states. From the Administration's viewpoint, its diplomatic tactics clearly reduced the threats to American interests from both these sources.

Arms Control. The Carter Administration came into office in 1977 determined to distinguish its foreign policy from the power politics of Henry Kissinger, dedicated to the pursuit of arms control, less military spending, human rights, Third World development and other "liberal" goals, and staffed in large part by people with deep ideological commitments to those goals. In short order, however, the idealism and grandiose political goals clashed with the unyielding and complex realities of international affairs and the stubborn and ponderous realities of bureaucratic decision-making. The early hopes and goals were moderated or abandoned, and the liberal ideologues changed their views, subsided into quiescence, or quit the Administration and then often criticized it for abandoning its earlier commitments. In four years the Carter Administration moved from one end of the foreign policy continuum close to the center of that continuum.

During its first four years the Reagan Administration seemed

[5] Tim Zimmerman, "The American Bombing of Libya: A Success for Coercive Diplomacy?" *Survival*, May/June 1987, pp. 195–214.

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to be going through a comparable metamorphosis. It began at the opposite end of the continuum from the Carter Administration, was staffed by large numbers of neoconservative ideologues, and made every effort to distinguish its policy from the "weakness" and "failures" of its predecessor. Over time, however, with respect to the Soviet Union, China, arms control, the Atlantic alliance, the Third World, the Middle East and Latin America, Administration policy appeared in practice to be adjusting to realities, even though its rhetoric often changed at a much slower pace. As a result, 18 months after President Reagan took office, neoconservative intellectuals were already expressing their anguish over the course that policy had taken. It thus seemed that, while it had started at the opposite pole, the Reagan Administration also was moving to the center and that its foreign policy after four years would be very similar to that of the Carter Administration after four years.

After seven years this model of pragmatic adjustment still applies to some elements of Reagan Administration foreign policy. On the central issues of nuclear weapons and the Soviet Union, however, it appears to have lost its relevance. On these issues, the Reagan Administration seems not to have moved from the radical right to the pragmatic center but rather to have flipped across the entire length of the continuum from one extreme to the other.

In 1981 and 1982 the Reagan Administration frightened realistic moderates (and many allies) by its bellicosity, intense anticommunism, reliance on military means and opposition to arms control. By 1986 and 1987 it was alarming realistic moderates (and many allies) by its apparent willingness to weaken nuclear deterrence, its eagerness to reach agreements with the Soviets, and its newfound faith that the Soviets had abandoned their expansionist goals. The naïveté concerning the Soviets that President Carter abandoned in 1979 President Reagan appeared to embrace in 1987.

In the 1970s many people later prominent in the Reagan Administration warned that arms control agreements could have potentially disastrous effects in weakening deterrence and encouraging euphoria and relaxation. In the mid-1980s they seemed to be enthusiastically attempting to turn their nightmares of the 1970s into the realities of the 1990s. This reversal of position in the course of five years was breathtaking. It is difficult to think of anything approximating it in previous American diplomacy.

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The transformation of the scourge of the evil empire into the apostle of Soviet-American amity generated many comments on the seeming inconsistency of the president and his Administration. "Mr. Reagan himself," as Arthur Schlesinger put it, "seems to have forsaken Reaganism."[6] In fact, however, a common psychology underlay the Reagan postures of both 1981 and 1987, rooted in his view that while there are no easy solutions there are simple solutions. Reaganism is not a philosophy of either the right or the left. It is a simple moralism that views the world in terms of evils—the Soviet Union, nuclear weapons—whose influence, if it cannot be eliminated entirely, must be greatly reduced.

No president—indeed, no responsible person—can be happy or complacent about nuclear deterrence. Yet at its worst it is the worst policy except for all the others, and Ronald Reagan is the only president who has actively tried to do away with it. President Reagan often affirms that "nuclear war cannot be won and must never be fought." He refuses, however, to accept its inescapable corollary: therefore, nuclear deterrence cannot be abandoned and must be made credible. This results, as Henry Kissinger observed, in "the most conservative U.S. administration of the postwar era stigmatizing nuclear weapons with arguments all but indistinguishable from [those of] the Committee for Nuclear Disarmament."[7] Nuclear aversion was clearly behind the Strategic Defense Initiative, which, the president argued, would "give us the means of rendering these nuclear weapons impotent and obsolete" and thus "free the world from the threat of nuclear war." Somewhat similarly, at Reykjavik in 1986, the president proposed to eliminate nuclear ballistic missiles in ten years and at least seemed to agree to the elimination of all strategic weapons and, according to some reports, all nuclear weapons. In the end these proclivities led to the more modest but still very meaningful agreement to eliminate shorter- and intermediate-range ground-based ballistic and cruise missiles.

Whatever its merits in terms of asymmetrical reductions and verification procedures, the INF treaty weakens NATO's ability to deter a Soviet military attack on or military coercion of Western Europe. Secretary of State George Shultz and other

[6] Arthur Schlesinger, Jr., "America's Political Cycle Turns Again," *The Wall Street Journal*, Dec. 10, 1987, p. 28.

[7] Henry A. Kissinger, "A New Era for NATO," *Newsweek*, Oct. 12, 1987, p. 57.

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Administration officials acknowledged as much when in the wake of the treaty-signing they urged increases in NATO's conventional strength. Euphoria over the elimination of a whole class of nuclear weapons and the destruction of three times as many Soviet as American missiles rests on the assumption that nuclear weapons perform the same functions in Soviet and Western strategy. That assumption is false.

The Soviet Union does not need nuclear weapons to conquer Western Europe; NATO does need them to deter and to defeat a Soviet attack. The ultimate deterrent has always been the U.S. strategic nuclear forces at sea and in the United States. With the achievement by the Soviets of at least parity in strategic forces with the United States, the probability that the United States would use its strategic forces in response to a conventional invasion of Western Europe clearly declined. The INF deployments were designed from the start to compensate for this weakness by posing a threat of retaliation from Western Europe into Eastern Europe and the Soviet Union. These missiles, particularly the Pershings, thus became a key component in the West's structure of deterrence.

The SS-20s, deployed in the late 1970s, were, in contrast, a holdover from previous Soviet strategy which held that a war in Europe would become nuclear almost immediately. During the past decade, however, Soviet strategy has increasingly emphasized winning through the waging of sustained conventional war. From the Soviet point of view, the SS-20s now serve little useful strategic purpose, while the Pershing 2s and GLCMs pose a serious strategic threat. Their elimination is a major strategic gain for the Soviets. The GLCMs and Pershings go from Western Europe. The T-72s, armored divisions and *spetz naz* units they were designed to deter remain in Eastern Europe. Europe becomes less secure with the treaty than it was with the missiles.

The gap in the structure of deterrence created by the INF treaty could be repaired by strengthening NATO conventional forces. The week after the treaty was signed Secretary Shultz told his European colleagues: "It is important for all of us to increase our contributions to NATO." The week before the treaty was signed Defense Secretary Frank Carlucci told his European colleagues that there would not be any "large-scale improvement in capability, given the constraint we all face."[8]

[8] Shultz quoted in *The New York Times*, Dec. 13, 1987, p. 1; Carlucci quoted in *The Washington Post*, Dec. 3, 1987, p. A28.

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Shultz articulated a hope; Carlucci stated a fact. Significant increases in NATO conventional strength seem remote indeed. This enhances the salience of other ways of compensating for the effects of the treaty, such as a conventional arms agreement and a stronger British-French nuclear deterrent.

IV

The next administration will confront the problem of moving the commitments/capabilities balancing process into its third and most difficult phase. It will need to continue and build on the diplomatic efforts of the Nixon, Ford and Carter Administrations to reduce threats to American security as well as on the Reagan Administration's innovations in military strength, military strategy and compellent diplomacy. Its central problems, however, will be in the area of economics, which previous administrations generally avoided. More specifically, the national security agenda for the administration coming into office in January 1989 contains four major elements.

Diplomacy. The INF treaty makes negotiation of a conventional arms agreement the top priority of diplomacy with the Soviets. To reduce the Soviet threat to European security such an agreement would have to involve the actual reduction and not just redeployment of Soviet offensive forces in central Europe. Unless implementation of the INF treaty is made contingent on negotiation of a conventional agreement, however, the opportunities for compellent diplomacy are rather limited. One possible way of enhancing Soviet interest in negotiating seriously on conventional strengths would be to carry forward and develop further a more offensively oriented NATO strategy. Army and navy thinking has already moved in this direction; in a more limited way, SHAPE's Follow-on-Forces-Attack plans also pose the threat of deep strikes into Warsaw Pact territory. Further development of allied strategy for prompt conventional offensive operations into Eastern Europe in the event of war would not only strengthen deterrence but could also provide the missing compellent to induce the Soviets to agree to conventional reductions.

In their process of adjustment at the turn of the century, British statesmen successfully reduced the threats they faced by reaching accommodations with the United States, Japan, France and eventually Russia, thus permitting themselves to concentrate their attention—and their navy—on Germany. In a bipolar world the opportunities for creative diplomacy are more limited. Yet there is one strategically located country,

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Iran, with which rapprochement is an appropriate long-term goal of American policy. The analysis and assumptions that lay behind the Reagan Administration's moves in this direction in 1985 remain valid, however naïve, clumsy, deceitful and eventually illegal was its follow-through. In time the fervor for expansion of revolutionary regimes declines, and policy comes to be motivated by more practical geopolitical considerations. The Iranian regime will eventually realize that only the Soviet Union can pose a serious threat to its security and that there is much to be gained by working with the United States in meeting that threat.

Strategy. Defense spending in the next administration will not increase and may well decline. The administration will need to secure as much effective military power as it can from limited resources. It will, consequently, want to continue many of the strategic innovations of the Reagan years. It will also, however, be driven to limit its investment in strategic defenses to the research, development and procurement of defense systems that will enhance rather than replace nuclear deterrence. The role of active defenses in the protection of U.S. strategic forces, command and control, and intelligence capabilities should be a function of their effectiveness and cost compared to protecting those capabilities through hardening, mobility and/or concealment.

As is normal in downside swings of the strategy-budget cycle, the next administration will be pushed to emphasize cheaper and more cost-effective forms of military force. Less costly forms of military force are not, however, necessarily more popular forms of military force. This problem arises in at least three contexts.

First, the United States and its allies have relied on nuclear deterrence because nuclear forces are overall much cheaper than conventional forces. Expenditures for nuclear forces balloon in major periods of modernization, as in the early 1960s and late 1980s, but even then their costs do not exceed 20 percent of the defense budget. When major modernization is not under way, the costs of the strategic nuclear forces shrink dramatically. The relative inexpensiveness of nuclear forces has in the past led to an increased reliance on nuclear deterrence during the periods of reduced defense spending. The next administration will be under significant fiscal pressure to move in a similar direction. Given current investment occurring in these forces, any government would want to exploit

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their potentialities for deterrence and defense in every way possible.

The political leaders of the Western democracies confront a dilemma. They have to be for peace and against taxes. They thus become caught between two imperatives. The arms control imperative leads them to seek agreements reducing nuclear weapons. The budget-cutting imperative constrains their conventional forces. Budget-cutting logic means they should emphasize nuclear forces; arms control logic means they should build up conventional forces. Combined, the dual pressures reduce the likelihood that they will do either.

Second, personnel costs are the largest item in the defense budget. In periods of budgetary stringency strong pressures exist to reduce the most expensive personnel—that is, active-duty military—and replace them with civilians or reservists. The latter offer the greatest possibility for savings, and the proportion of reserve forces to active forces is likely to increase during the coming years. Over an extended period of time, conscriptees can be acquired at less cost than volunteers. At present, however, the all-volunteer force is operating effectively; quantitative and qualitative recruiting goals have generally been met. Hence there is no immediate reason to consider the reintroduction of conscription. At some point, however, both for cost reasons and, more significantly, in order to meet manpower goals, conscription may become a real issue.

Third, security assistance probably produces more significant payoffs per dollar than any other component of defense spending. Yet the security assistance budget has been regularly reduced by Congress, and over 60 percent of U.S. security assistance funds go to two countries, Israel and Egypt. In a period of budgetary stringency, however, security assistance is one way of achieving substantial results for relatively small investment. This is true both for regular security assistance to allied and friendly governments and also for assistance to anticommunist insurgencies. Appropriate assistance programs are a cheap way of extending U.S. power and influence.

In terms of securing more military output for a given fiscal and resource input, nothing is more important than restructuring the process through which resources are allocated in the Department of Defense. In the Weinberger era, the key decisions as to how increased defense funds would be spent were made by the military services. Inevitably, the services gave priority to those programs and weapons that were most impor-

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tant to the services, not necessarily those that would make the greatest contribution to overall U.S. strategic purposes. The problem here lies largely in the decision-making and resource allocation structure of the Pentagon. The United States has several broad strategic purposes: to deter Soviet nuclear attack on the United States and its allies; to deter and to defeat Soviet conventional attacks on U.S. allies in Western Europe and East Asia; to be able to intervene effectively to protect U.S. interests in the Persian Gulf, Latin America and elsewhere in the Third World. Service programs are justifiable only insofar as they contribute to national strategic missions. The Defense Department is organized, however, in terms of military service not mission. Hence service needs, not mission needs, predominate.

The central defense organization needs to be restructured to create and give effective budgetary power to offices primarily concerned with major strategic missions such as nuclear deterrence, NATO and East Asian defense, and regional defense and power projection in the Third World. These offices would identify the forces and programs most required to carry out their mission, and the services would then compete among themselves to provide those capabilities. Such a reorganization would ensure that major programs served critical strategic missions and would greatly facilitate the comparative evaluation of programs in terms of their relative contributions to strategic missions. The net result should be a significant increase in effective strategic output for the same resource input. The past few years have seen an increasing emphasis on mission organization in the Defense Department, and the next administration will need to carry this process forward.

Allies. The reallocation of the burden of defense between the United States and its allies has not kept up with the changes in the economic capabilities of the United States and its allies. In 1985 the U.S. GNP was 47.5 percent of the total economic product of the NATO countries plus Japan; U.S. defense spending, in contrast, was 70 percent of total allied defense spending. Somewhat similarly, with less than one-third of the total allied population, the United States contributed 40 percent of the total allied active military and civilian defense personnel. It is difficult to determine what proportion of U.S. defense expenditures goes for the defense of Western Europe. According to some estimates, however, U.S. expenditures for the defense of Western Europe may exceed West European expenditures for its own defense. The situation with respect to East Asia is

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clearer. The figures again are rough and debatable, but widely accepted estimates indicate that annual U.S. expenditures for East Asian security ($42–47 billion) have been about twice those of Japan ($22 billion).[9] Security in East Asia is important to the United States and to American voters, but is it worth twice as much to us as it is to Japan and Japanese voters? Japan has the second-largest GNP and the second-largest population among the allies. Yet its defense expenditures are less than half those of Britain, France or West Germany and less than ten percent of those of the United States.

The other side to this imbalance in defense is the imbalance in economics. The U.S. trade deficit with Western Europe was expected to be $30 billion in 1987, the trade deficit with Japan about $60 billion. It cannot escape and, indeed, it has not escaped notice that in recent years total U.S. trade deficits and U.S. budget deficits have been roughly of the same order of magnitude as U.S. defense expenditures for the defense of Europe and East Asia. As one Democratic candidate for the presidency put it: "Today we maintain a global defense financed with dollars borrowed from creditors who are the very countries being protected. In 1987 we actually owe the West Europeans and the Japanese money for defending them."[10] This situation cannot and will not last.

What are the ways of dealing with it? One possibility would be for the United States to cut back its defense programs primarily devoted to the defense of Western Europe and East Asia. West European countries and Japan could then accept the decreased allied capabilities as not incompatible with their security, or they could increase their own defense efforts to compensate for the U.S. reductions. Such increased efforts, however, are unlikely to fill the gap left by the U.S. reductions, and the collective impact of the increases by individual countries is likely to be limited by the absence of effective coordination among them. The Soviet Union could end up benefiting both from a reduced total effort and from less integration and more intensified antagonisms among the allies.

[9] For relevant estimates and arguments see: C. Weinberger, *Report on Allied Contributions to the Common Defense: A Report to the Congress*, Washington: Department of Defense, April 1987; International Institute for Strategic Studies, *The Military Balance: 1987–1988*, London: IISS, 1987, pp. 215–222; Earl C. Ravenal, *Defining Defense: The 1985 Military Budget*, Washington: Cato Institute, 1984; James Chace, "Ike Was Right," *The Atlantic*, August 1987, pp. 39–41.

[10] Representative Richard Gephardt (D-Mo.), quoted in Morton M. Kondracke, "Make 'Em Pay," *The New Republic*, Oct. 12, 1987, p. 16.

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An alternative and preferable way of redistributing the burden would be for the allies to pay an increased share of the costs of the American forces protecting them. The defense of Western Europe and East Asia is in the interest of the United States. Yet the nations in those regions have an interest in and are benefiting from the U.S. defense of those regions. The United States, Peter Peterson correctly remarks, "must inevitably become a sizable net exporter of goods and services."[11] Depending upon the dollar value assigned to them, however, the United States may already be in that position because of the services it provides, including military security, access to the American market and membership in the community of free nations which it leads. If its allies want these benefits to be continued, they should be willing to pay more for them than they have been paying. An extremely modest but symbolic step in this direction was Japan's offer to add to its U.S. base support payments $150 million for American protection of its oil supplies coming from the Persian Gulf.

The relative decline in American power both enhances the need for the allies to increase their contribution to the common defense and reduces the ability of the United States to persuade them to do so. The allies clearly cannot and will not assume the bulk of the burden now borne by the United States. Yet they can do more than they are doing, and it is in their interest to do so. At some point Congressman Gephardt's simple logic—why should we borrow money from them in order to defend them—will have its impact on the American public.

Economics. In their efforts to deal with the relative decline in Britain's power at the end of the nineteenth century, British leaders reduced threats through diplomacy, revised their naval strategy, reorganized the governmental machinery concerned with security issues (creating the Committee on Imperial Defense and the General Staff), and attempted, less successfully, to secure greater contributions to the defense of the empire from India and the self-governing dominions. They did not, however, make any major effort to reallocate resources to defense purposes or to restructure and revitalize the British economy. The result was a sustained and significant deficiency in British capabilities that increased the probability of war and the costliness of that war once it came. "Outside the realm of diplomacy and strategy," Friedberg observes, "nothing had

[11] Peter G. Peterson, "The Morning After," *The Atlantic*, October 1987, p. 49.

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been done to alter the erosion of Britain's industrial position. Over time this would mean (among other things) that she was less capable of waging sustained, intensive, modern warfare than several of her rivals." Preventing this decline "would have required the extraction or redirection of an increased fraction of the resources of British society. . . . Better technical education, more support for scientific research and development, greater incentives for domestic investment and increased government attempts to open foreign markets might have helped, within certain limits, to slow the erosion of England's industrial position."[12] The weakness of the British governmental apparatus and prevailing British ideas on limited government combined to exclude effectively these policies from the political agenda.

Britain, in short, never moved effectively into the third or economic phase of adaptation to complement the changes it had made in diplomacy and strategy. Involving as it does the allocation of burdens, the economic phase is far more difficult for any government, but particularly a democratic government, to undertake. Under the Reagan Administration the United States has expanded its military power in a way that Britain eschewed. It has not, however, generated the economic resources with which to pay for that expansion. This leaves the United States facing three economic imperatives with respect to national security.

First, there is the need, as everyone recognizes, to resolve the fiscal crisis and reduce the federal deficit. This means a firm and possibly lower ceiling on defense spending, cuts in domestic programs and entitlements, and increased revenues, which could come from a variety of possible taxes, some of which might have positive effects on investment and economic growth.

Second, the United States must, as again almost everyone recognizes, do what Britain failed to do: adopt national policies to promote higher-quality education, more rigorous standards, more widely available technical training programs, research and development, and public, corporate and individual investment in promising technologies and industries. In the longer term only programs such as these will result in increased productivity, technological innovation and beneficial economic growth. Creating these requisites of a sound economy is essen-

[12] Friedberg, *op. cit.*, pp. 510–513.

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tial both to restore U.S. economic competitiveness vis-à-vis Japan, Europe and the newly industrializing countries and to create the economic and technological base for American military security.

Third, movement toward deficit reduction and economic renewal will in large part depend upon development of a more comprehensive and balanced approach to the problems of national security and economic development than has existed in recent years. In the aftermath of World War II, in which U.S. industrial capacity was decisive, there was widespread awareness of the close interconnection between the economic and military dimensions of national security. Early national security planning documents, such as NSC 68 of 1950, devoted much attention to the economic underpinnings of security. Questions of industrial base, economic mobilization and technological innovation were central to the discussion of security issues. Government agencies concerned with security made significant contributions to industrial development, those of the intelligence agencies to the computer industry being only the most dramatic. Over time, however, as the experience of total war faded into the background and after the emergence of a distinct defense industry or military-industrial complex following the Korean War, the connection between economic policy and national security began to weaken. National security planning documents tended to focus increasingly on purely military strategy.

The National Security Council was created in 1947 to be the forum for integrating the various elements of security policy. Its legislative mandate was and is to advise the president on "the integration of domestic, foreign, and military policies relating to the national security." Economics became, however, the weak sister and often the absent partner in the national security policymaking process. The result was less attention than should have been given both to the trade-offs between policies to promote economic strength and those designed to promote military security, and to the types of policies that may constructively contribute to both economic and military security. Reestablishing the link between these two should be high on the agenda of the next administration.

V

Walter Lippmann had a rationalist approach to policymaking. The political dissension that he saw resulting from foreign

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policy "insolvency" would be ended by identifying the policy that was "on its merits" the correct one. It was necessary, he said, to proceed with "the formulation of a policy which, because it is sound, works so well that it heals the dissension. . . . The measure of a policy is its soundness; if it is sound, it will prove acceptable."[13]

Lippmann was, of course, wrong. Acceptable policies are produced not by the ratiocination of a Lippmann-like intellect but by the interests, interactions and compromises of highly practical politicians. What politicians see and what they can accomplish are, in turn, heavily influenced by the institutions in which they operate. For U.S. national security policy the relations between the president and Congress and between the two parties are crucial. In recent years neither of those relations has helped to promote the formulation of "sound" policies.

One of the more distressing political developments of the Reagan era has been the intensifying and unproductive competition between the president and Congress over foreign policy. In this area the Constitution is, as Edward Corwin said, an "invitation to struggle," and that can be all to the good. In recent years, however, the competition between the two branches has often not reflected the Constitution but undermined it. Both branches have increasingly ignored the rules that previously governed the struggle between them. Responding both to political pressure and to institutional imperatives, Congress has intruded deeper and deeper into the day-to-day conduct of foreign affairs, the micromanagement of defense, and the regulation of executive behavior in ways that surely would amaze the Founding Fathers. The president and executive branch have reacted by looking for escape hatches and loopholes to get around congressional legislation, by resorting to actions, most notably in the Iran-contra affair, that are illegal or of very dubious legality, and by simply defying Congress and refusing to enforce laws they did not like. The lack of restraint on both sides has not been conducive to the development of well-grounded policy. The executive needs to accept Congress as a full partner in the policymaking process; Congress needs to recognize the autonomy of the executive and the line, however fuzzy it may be, between policymaking and policy implementation.

The political structure of opinion has also not been conducive

[13] Lippmann, *op. cit.*, pp. 84–85.

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to the development of sound policy. Dissension has existed between the parties and, more important, within the parties. Within the Republican Party, right-wing militantly anticommunist extremists differ fundamentally with pragmatic moderates. Within the Democratic Party, left-wing antimilitary extremists also clash with foreign policy moderates. A moderate approach to foreign policy is supported by the great bulk of the American people and the American political and intellectual leadership. Yet in both Congress and the administration the moderates are seldom in secure control. Divided between the parties, they are frequently a minority within each party. Extremists often have been influential in the early years of each administration. In Congress, moderates within the opposition party are often eclipsed by the extremists in their party who are more virulent in their denunciation of the administration. What is required now is a bipartisan "revolt of the moderates," to use Samuel Lubell's phrase. That can only occur, however, under the leadership of the president.

The prospects of it occurring may be better now than they have been for some while. Both the Carter and the Reagan Administrations came into office intent on differentiating their foreign policy from that of their predecessor. This tended to lead them toward one extreme or the other. On the central issues of foreign policy—the Soviet Union and nuclear weapons—however, the Reagan Administration has now embraced both extremes. Hence Reagan's successor can best distinguish his foreign policy from Reagan's by occupying, from the start, the realistic middle. Coping effectively with the Lippmann gap and producing a better balance between capabilities and commitments is best done by a middle-of-the-road administration. Conservative extremists are likely to expand American commitments more than they increase American power; liberal extremists are likely to reduce American power more than they reduce American commitments.

The starting point in developing a sound policy is to abandon the illusions that have often permeated American thinking about nuclear weapons and the Soviet Union. With respect to the former, President Nixon put it most realistically and succinctly: "We've got to disabuse ourselves of two myths. One is that we can eliminate nuclear weapons from the face of the earth. . . . The other myth is that we're going to render nuclear weapons 'impotent and obsolete' with a perfect defense. Both

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myths have got to go."[14] With respect to the Soviet Union, it is equally necessary to disabuse ourselves of the myths, first, that a friendly relationship can exist between that country and the United States and, second, that there is some non-disastrous way in which the United States can eliminate the Soviet Union as a threat to American security.

No single or simple solution exists to the problem of the Lippmann gap. Intelligent leaders may be able, however, to moderate and to cope effectively with the gap through a judicious combination of creative and coercive diplomacy, strategic innovation and military reform, enhanced allied contributions to the common defense, and effective measures to deal with the budget deficit and economic renewal in the context of an overall national policy for promoting economic and military security.

Implicit in Lippmann's analysis is the assumption that "insolvency" in foreign policy is unnatural and will, unless corrected, lead to disaster. Yet by his own accounting in 1943, American foreign policy had been characterized by insolvency and dissension for half of American history. Lippmann did not consider the possibility that such may be the natural state of affairs for a democratic republic actively engaged in the world. The years of solvency from 1823 to 1898 coincided with American isolation. The later years of solvency from the mid-1940s to the late 1960s coincided with American hegemony. Neither isolation nor hegemony is natural or possible now, and some gap between capabilities and commitments may be inevitable. Washington, Adams, Jefferson and Madison could not forge a balance between power and commitments in the early years of the republic. Two Roosevelts and Wilson could not do it in the first half of this century. It remains to be seen whether future leaders will be able to do any better in coping with the Lippmann gap.

[14] Nixon interview, *Time*, May 4, 1987, p. 23.

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Michael Howard

A EUROPEAN PERSPECTIVE ON THE REAGAN YEARS

American political leaders—or aspirants to political leadership—frequently visit Europe and return to inform their domestic audiences that "the Europeans" hold views that accord remarkably closely with their own. In consequence, they declare, "Europe" would be supportive of their own policies and made deeply anxious by those of their opponents.

This is not surprising. The spectrum of opinion is as wide in Europe as it is in the United States. American visitors would not be human if they did not seek out those who shared their views, and pay more attention to their opinions than to those of the groups with whom they disagreed. The question, how broadly the views of the European elites with whom American politicians communicate are shared by the population as a whole, is one about which even those elites would be rash to offer an opinion. No one—least of all the author of this article—has the right to speak for "Europe" except its elected leaders, and then only on the rare occasions when they can do so with a single voice. American politicians can therefore rest assured that whatever they do, some Europeans will support them and others will be deeply disturbed. The question is how many are there in each group, and how influential are they?

II

It is true that the center of gravity of European political thinking lies somewhere to the left of that in the United States: Jesse Helms probably has as few admirers in Europe as has Tony Benn in America. But even conservative European politicians are more likely to feel at home with Democrats than with Republicans, and the radical socialism, Marxist or *marxisant*, that is an accepted part of European political culture, has never established deep roots across the Atlantic. A right-wing American administration is therefore always likely to have more difficulties with its European allies than a centrist one.

Sir Michael Howard is Regius Professor of Modern History at Oxford University and President of the International Institute for Strategic Studies.

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But the rightward movement that characterized American political life in the first half of the 1980s was paralleled in Europe. Right-wing leaders came to power in Britain, France and West Germany, and their tenure still appears relatively secure. Socialist parties everywhere have declined, those most firmly pledged to unilateral disarmament fastest of all. The style of the Reagan Administration, with its reassertion of American self-confidence, its buildup of American armed forces and its tough confronting of Soviet adventurism, has commanded more sympathy in Western Europe than would have been conceivable twenty years earlier. In spite of this, the year 1987 saw relations between the governments of the United States and its European allies reach a nadir for which it would be difficult to find an equal—the Suez crisis of 1956 excepted—during the whole of the postwar period.

For this one can identify three distinct causes: Reykjavik, the Iran-contra scandal and the budgetary deficit. All can be traced not so much to the policy as to the style of policymaking in the White House, and the personal qualities of the president himself.

The Reykjavik summit meeting of October 11–12, 1986, between President Reagan and Soviet General Secretary Mikhail Gorbachev succeeded in alienating virtually every sector of European public opinion. The forces of the right were everywhere horrified by the president's declared objective of "eliminating all ballistic missiles from the face of the earth" by 1996 and his aspiration to create "a world without nuclear weapons." The left blamed him for making this aspiration unacceptable to the Soviets by his insistence on retaining his Strategic Defense Initiative (SDI). Moderates in all countries, including most political leaders and government officials, were deeply disturbed by what James Schlesinger has so rightly called the "casual utopianism and indifferent preparation" of the whole exercise.[1]

No Europeans—and very few Americans—had been consulted before the Reykjavik meeting. What was assumed to be a preparatory *prise de contact* turned overnight into a serious negotiation over issues vital to the security of the entire West. Soviet proposals, produced without warning at the conference table, were accepted, without any preliminary examination by

[1] "Reykjavik and Revelations: A Turn of the Tide?" *Foreign Affairs*, America and the World 1986, p. 430.

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Western experts, as a basis for negotiation. The most fundamental rules of diplomacy were ignored. The president's stubbornness over SDI averted catastrophe, but the U.S. government—not for the first time (or the last)—negotiated proposals that would have caused it deep embarrassment had the Soviets accepted them. After the summit the State Department mounted a massive damage-limitation exercise and the British prime minister visited Washington to elicit, on behalf of her European colleagues, a presidential explanation that reconciled his views with official alliance policy. But the sheer unprofessionalism of the whole enterprise shocked European governments deeply and reinforced the opinion, especially common in France, that American leadership was no longer to be trusted. It was no coincidence that during the following spring France and West Germany began to discuss closer military cooperation, or that the government of Margaret Thatcher, pledged to enhancing Britain's independent nuclear capability, was returned to power with a substantial majority. The shadow of Reykjavik lay heavily over alliance relationships throughout 1987; not even the far better managed summit in Washington in December was to remove it.

So, to a lesser extent, did the shadow of SDI. It would be wrong to see all European opinion as hostile to this enterprise. SDI has influential backing, drawing its strength not so much from those who find the argument for the initiative intellectually convincing as from the military-industrial quarters which fear losing the technological benefits that may accrue from its development, and from those supporters of the Atlantic alliance who insist on remaining close to Washington at almost any cost.

The attitude of most European governments was probably shaped by the realization that the president's heart was set on SDI and that there was no point in arguing about it. There was also the realization that the president—or at least his administration—was not immortal; with a new incumbent in the White House, facing ever-greater budgetary pressures and perhaps receiving less optimistic progress reports from his technical advisers, SDI might simply go away.

As a result, European political leaders, although still skeptical of its feasibility and alarmed by its implications for the defense of their continent, have been able to make statements on SDI that, while heavily qualified, are broadly supportive and provide no handle for Soviet propaganda. Perhaps as a result, the

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Soviet government has shown decreasing enthusiasm about exploiting allied differences to bring pressure on the Reagan Administration to abandon the program. They, too, may appreciate that in two years' time the situation may be quite substantially different.

The failure of the Reykjavik summit and the easing of alliance disagreements over SDI made it easier to create a common NATO policy on arms control negotiations. This was just as well, since the subsequent rapid introduction of Soviet arms control initiatives and the magnitude of Soviet concessions in this field left the West breathless and might have created—as perhaps they were intended to create—considerable disarray in the alliance. Soviet acceptance of the "zero option" proposal for the simultaneous removal of Soviet SS-20 missiles and the American intermediate-range nuclear forces installed in Europe to match them; their concession that the zero option need not be linked with strategic missile reductions or renunciation of SDI; their accommodating attitude toward their missiles in the Far East; their acceptance of the demand that their shorter-range INFs (SS-12s and SS-23s) should be included in the deal, although they greatly outnumbered the equivalent Western missiles—all this undermined the objections of Western governments to an INF agreement that was anyhow strongly favored by public opinion. European defense experts, especially those in Bonn, did not conceal their fears that the security of Western Europe was being sacrificed to an unholy alliance of their own countries' peace movements and an irresponsible American president concerned only to leave a pleasant image in the history books, and they found support in the valedictory comments of the retiring SACEUR, General Bernard Rogers. But European leaders, who realized that they could not fight both official American policy and their own public opinion polls, accommodated themselves to an agreement with as much grace as they could.

Nor would it be accurate to suggest that even European defense experts were of one mind regarding the undesirability of the INF deal. Typically, those in Paris tended to see it in the gloomiest possible light, as not only bad in itself but a prelude to further disastrous American concessions. Those in London were more relaxed about the INF deal, taking comfort from the "existential deterrence" provided by the fearsome array of nuclear weapons remaining in Western arsenals. The West Germans, for their part, were divided among themselves,

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though inclined to give the Americans the benefit of the doubt. The INF controversy indeed provides a typical issue over which Americans of any shade of opinion can find some influential European voices to support them.

Finally, and given greater salience by the conclusion of an INF agreement, there was the question of conventional forces. Increased conventional forces cannot carry out the deterrent function of Pershing 2s and ground-launched cruise missiles by posing a direct threat to Soviet territory, but the imminent disappearance of the missiles certainly focused attention on NATO's conventional shortcomings. Europeans have not been deaf to congressional complaints about more equal "burden sharing." They realize that the combination of the horrendous U.S. budget deficit and a forthcoming presidential election might well result in pressure for a significant drawing down of U.S. forces in Europe.

Further, Reykjavik, as we have seen, made the French take European defense cooperation a great deal more seriously. The fears to which the summit gave rise, combined with apprehension about what was seen as a "soft" West German policy toward the Soviet Union, moved them into closer military contacts with Bonn, and the defunct Western Defense Union was revived as a serious forum for the discussion of European defense cooperation.

As a result there has once again been much well-intentioned discussion of a "European pillar"; so much, indeed, that some Americans have taken alarm. What the West really needs, in their view, is not so much a separate and potentially hostile European pillar as a greater European contribution to an American-dominated alliance. But a greater European contribution can come only from greater integration of the European defense effort—which is bound, if successful, to produce some kind of distinct European defense entity. Indeed the fear of abandonment by the United States, whether at the whim of an irresponsible president or by the votes of an understandably resentful and parsimonious Congress, is a very effective incentive in hastening such integration. Paradoxically, President Reagan may thus have done more for the defense of Western Europe than any of his more alliance-minded predecessors.

But the ability of Europeans to increase their contribution to the common defense is limited, not only by the conflicting service, bureaucratic and industrial interests that make all rationalization (whether of procurement, logistics, equipment

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or doctrine) such a desperately slow process, but also by serious economic constraints.

Admittedly, such constraints are usually, at bottom, political. Democratic governments are always unwilling to allocate to defense expenditure resources equally in demand for other goals—investing in wealth creation, maintaining a stable economy, and providing a high standard of living and a welfare system sufficient to ensure social cohesion—unless there is an imminent and universally recognized threat to their security. West European perceptions of Soviet military power and ideological hostility are sufficiently acute to enable their governments to sustain defense expenditure at about the present level, but no amount of propaganda from the Pentagon will persuade European electorates that General Secretary Gorbachev's U.S.S.R. poses such an imminent menace to their independence that they must spend substantially more on their own defense. The American example in any case suggests that greater defense expenditure does not necessarily provide more efficient armed forces, and that large forces of doubtful efficiency are of little value either in enhancing national prestige or implementing the objectives of national policy.

European governments are therefore much more likely to grasp the olive branch of conventional force reductions from among the whole sheaf held out by Mr. Gorbachev, and to thoroughly test his intentions in that direction before they consider further defense expenditure of a kind that would be widely regarded among their electorates as anachronistic and unnecessary. Such increased expenditure, were it to occur, would indeed owe less to fear of the Soviet Union than to the doubts (which the Reagan Administration has unwittingly done so much to kindle) about the ultimate reliability of the United States.

III

These doubts were lavishly nourished by the aftermath of that second major event of the fall of 1986: the revelations of Irangate. Like its Watergate predecessor, the scandal was followed in Europe with a mixture of astonishment, amusement and horror. But its impact abroad was worse even than that of Watergate. Watergate was, after all, a purely domestic issue. Its unsavory revelations about Washington politics were titillating, but most European governments had comparable problems. The mid-1970s was a period when Downing Street was

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allegedly being bugged by MI5, Bonn was haunted by spy revelations and both Paris and Rome were dogged by political scandals of all-too-familiar kinds. Above all, Watergate did not affect Washington's conduct of foreign policy, which, in fact, in the hands of Henry Kissinger, commanded more respect abroad in that period than it has ever done since.

But Irangate struck at the very essence of American foreign policy. It was not so much the content of the Iran-contra program that shocked America's friends and allies; rather was the fact that it existed at all, the kind of people responsible for it, and the light it shed on the nature of Mr. Reagan's presidency—these were the aspects that caused such widespread alarm. The revelation that vital issues of foreign policy, some of them of deep concern to America's allies, were being determined by a small group of unqualified and irresponsible officials, without reference not only to Congress, the State Department or the Department of Defense but to the president himself, struck a blow to the credibility of the United States as a reliable partner from which it will take years to recover. Until that credibility has been restored, the United States will be unable to exercise an influence anywhere in the world commensurate with its political aspirations or its military capacity. The president of the United States is sometimes described as the emperor of the West; unfortunately Washington over the past decade has acquired the image, not of a second Rome, but of another Byzantium.

The process of rebuilding credibility is now under way. President Reagan discarded his henchmen with the same casual light-heartedness as he had shown in acquiring them. The massive machinery of congressional and legal investigation was set in motion and is still grinding away. Measures will no doubt be taken to ensure that such an event will not occur again, or at least not in the same way. Everyone has had "no end of a lesson." But two nagging doubts remain.

The first is about the whole system that made Irangate possible: a system that can bring to power a president quite ignorant of the world outside the United States and enable him to delegate immense authority to others yet more ignorant, but which makes him solely responsible for the conduct of foreign affairs. That such power must rest with the executive, and that the president's initiative should not be hampered by constant interventions by or reference to the legislature, is incontestable. Europeans raised no objections to this power

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when it was wielded by Roosevelt or Truman. But to control it in such a fashion as to ensure that it is only benignly and responsibly used—and not all Americans regarded either Roosevelt or Truman as benign and responsible—would appear constitutionally impossible (and the American Constitution has recently been celebrated as if it were the greatest achievement of the human race). There will always remain the possibility that, whatever the avowed policy of the U.S. government may be, and however loyally it is being implemented by responsible officials, there will still be a small but powerful cell, working away in the basement of the White House or the offices of the Executive Office Building, with substantial resources at its disposal, doing something entirely different.

The second doubt arises from the fear that, although most Americans were clearly shocked by the unconstitutionality of the methods employed in Irangate, a considerable minority may have applauded the objectives of the conspirators, and that not a few believe that the end justified the means. Lieutenant Colonel Oliver North is unlikely to have been the only person to have regarded a scheme that would have simultaneously released American hostages, encouraged the opponents of the ayatollah in Iran and financed the "freedom fighters" in Nicaragua as being "a neat idea." His very self-confidence must have derived from a conviction that if the president and the American people knew what he was doing they would (apart from the wimps in Congress) have overwhelmingly approved.

Seen from abroad, the appearance of Ollie North before the television cameras was particularly disquieting. History has made Europeans very familiar with handsome, bemedaled young officers who believe they have a higher conception of legality and a greater insight into the national interest than the elected representatives of the people. At best such men split the nation, as they did in France and Spain; at worst, as in Germany, they destroy it. The wave of support for North, and the uneasy shuffling of congressmen publicly trying to distance themselves from his opponents, made many Europeans wonder what kind of America they were really dealing with. In fact, North, like Douglas MacArthur before him, is no more significant politically than was the ineffable General Boulanger in France. But populist militarism is an ugly and dangerous phenomenon wherever it occurs, and America's allies have every

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cause to be grateful that the American Constitution, in spite of its drawbacks, is set in concrete.

Whatever policy the Irangate conspirators may have been implementing, the clandestine nature of their activities would in itself have been a matter of concern to America's allies. But the policy itself was not one likely to command general approval in its approach to the questions of terrorism, or of the Middle East, or of Central America: the three issues that it so "neatly" packaged together.

On the matter of terrorism, or more specifically the ransoming of hostages, the situation was clear. An international agreement had been achieved, with great difficulty, and largely on the insistence of the United States itself, that no ransom money, whatever the circumstances, should be paid to terrorist groups for the release of hostages. It was now revealed that senior American officials were doing precisely that. Whether they were doing so on direct presidential orders is immaterial; they were clearly acting on their perception of presidential wishes, which they regarded as tantamount to orders. European governments were understandably and justifiably outraged. Their confidence in the United States as a reliable partner in dealing with Middle Eastern affairs, which had barely recovered from the precipitate American withdrawal from Lebanon in 1983, was weakened yet further. As a result, American attempts to coordinate common action in the Persian Gulf in 1987 met with little success.

American "leadership" in the Middle East had never commanded much respect among Europeans. This, it must be admitted, was partly due to the not always well-founded belief, on the part of the French and the British in particular, that their long-standing historical involvement in the region gave them an understanding of its problems that it would take the Americans generations to acquire. Nevertheless the deep American attachment to Israel on the one hand and the visceral detestation of Iran on the other has certainly made it extraordinarily difficult for any American administration to take a farsighted view of Western interests in this region and pursue them with any kind of consistency.

It was generally believed in Europe that the positive, if belated, American response to Kuwait's request that Kuwaiti vessels be allowed to sail under the protection of the American flag was due less to any attachment to the principle of freedom of navigation in international waters, or even to an effort to

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maintain the free flow of oil to the Western world, than to a desire to exclude Soviet participation from the region and to retaliate for all the humiliations the United States had suffered at Iranian hands over nearly a decade.

European governments on the whole approved of the first two of these motives but were deeply suspicious of the third. Their suspicions were deepened when the Reagan Administration reacted to the Iraqi attack on the U.S.S. *Stark* by rapidly accepting Iraqi apologies and redoubling their denunciations of the Iranian ayatollah. The mood of anger and resentment with which Americans approached the Gulf conflict made it difficult for their government to act the role of dispassionate international policeman to which it laid claim and which the situation obviously required. It was thus not surprising that European governments preferred to act unilaterally to protect their interests in the region and to channel their communal diplomacy through the United Nations. To put it quite bluntly, they did not know what kind of mess the Americans would land them in next.

European opinion was little more supportive of U.S. policy toward Nicaragua. There were certainly those who shared the view of the Administration, that this was part of a global struggle against communism that should be given wholehearted support. Others, possibly more numerous and certainly more vociferous, denounced it as typical *yanqui* imperialism. But the left did not make of it a major issue as they had, for example, Chile in the 1970s. Perhaps it was because the issues were too complicated (not that that normally restrains left-wing activists from strident and simplistic propaganda). Perhaps it was because Soviet-backed "peace" organizations had received orders to go easy on the issue. Perhaps it was sheer battle fatigue. But there was a general sense that this was something which the United States must be left to sort out, that Central America lay within a legitimate American sphere of influence in which Europeans had no *locus standi*.

There was however a general sense that the United States was not sorting it out very well. The bad impression created in the international community by the mining of Nicaraguan harbors in 1984 and the refusal of the United States to accept the jurisdiction of the International Court of Justice had never been quite eradicated. It was generally felt in Europe that the United States, in supporting the contras, had a bad case both legally and morally, and President Reagan's improbable de-

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scription of them as freedom fighters comparable to the founders of the American republic did not inspire conviction. To those with long memories or some knowledge of early twentieth-century history, American treatment of Nicaragua resembled Austria-Hungary's clumsy bullying of Serbia before 1914—an unhappy analogy.

The policy adopted by the Reagan Administration toward Nicaragua was further seen by many as typical of its approach to the Third World as a whole, and over this notion the disquiet of European elite opinion was very deep indeed. Henry Kissinger has said many wise things, but his suggestion that, whereas the United States is a global power, the states of Europe are only regional powers was certainly not one of them. If true at all, it is so only in the narrowest military sense of capacity for force projection.

In fact European interest in Third World countries, commercial, historical and cultural, has always gone far deeper than that of the United States. British links with the Indian subcontinent, southeast Asia and southern Africa, French links with north and central Africa, traditional Italian involvement throughout the Levant, Spanish cultural connections with Latin America: all reinforced a *tiers-mondisme* strongly influential among European intellectuals, churches and the young, not least in those north European states whose colonial involvement in the area had been minimal. European concern for the welfare of Third World states might be sentimental and even counterproductive, but it is deeply felt and, in consequence, is a political factor that European leaders cannot ignore.

The Reagan Administration's dismissal of the Third World as an irrelevance except as a battleground against the forces of communism, its lack of sympathy for nationalist movements if they betray any tilt toward the Soviet Union, its readiness to exploit local rivalries in pursuit of its global confrontation with Soviet power, above all its lack of empathy with the complex cultures of these regions is, for European observers, a matter of profound concern. Any visitor to Africa or south Asia today must be struck by the contrast between the generosity with which the United States has contributed to the welfare of the new nations in these regions and the visceral anti-Americanism that now seems an intrinsic part of their cultural outlook. It is one of the most saddening phenomena of the contemporary world scene.

This anti-Americanism surfaces most dramatically at the

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United Nations and quite properly infuriates all Americans who take an interest in its proceedings. The denunciations of American policy that have become part of the ritual incantations of the General Assembly have effectively destroyed U.S. patience with that acrimonious body. Jeane Kirkpatrick, whatever her shortcomings as a professional diplomat, certainly did a good job in honestly representing the attitude of her government and most of the American public toward the United Nations. There is no reason to expect any state to show courtesy and consideration toward a body—particularly one consisting largely of its pensioners—from which it receives only continual abuse. But that abuse is largely designed for home consumption, and the Third World delegates who engage in it are as faithful in conveying the attitudes of their governments as was Ambassador Kirkpatrick herself.

One does not have to be a European to find this confrontation distressing. Critics of the United Nations maintain that the institution has failed to work, and if one thinks of it as a Western-style parliament aspiring to sovereign powers, that is self-evidently true. But as a *parlement* in the original sense, a forum in which the representatives of all groups can come to air their grievances, it works very well, and those grievances must be listened to, especially by any power that aspires to world leadership. Leaders must embody and articulate the profound aspirations of their followers if they wish to command their implicit trust. That quite clearly is not a role that the United States is today qualified to play within the international community, though fortunately the Soviet Union shows no signs of being able to do so either.

The realization of this has produced a significant shift within the American intellectual community. The Wilsonian assumption that the United States, representing the unspoken longings of all mankind and constituting a model to which all nations aspired, had the duty to assist others to achieve that goal by all means in its power quite clearly no longer fits the facts of the case. All too evidently the United States and its like-minded allies were seen as a beleaguered minority in a world whose cultural values were alien, usually hostile, and showed no signs whatever of changing.

In consequence the view has become increasingly prevalent among "the new right" that the United States should abandon its old liberal sentimentality and instead quite frankly pursue its national interests, use its economic muscle to reward its

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friends and punish its enemies, and take little account of "democratic values" on which most Third World states had anyhow turned their backs. The argument is sometimes heard that the United States should "act like a superpower." When critically examined, this usually meant, not that it should behave with the discretion and sense of collegial responsibility that had, in principle at least, characterized the behavior of Great Powers in the heyday of the Concert of Europe, but rather that it should imitate the Soviet Union in rejecting all the constraints on international behavior that had been so painfully built up within the international community over the last three hundred years.

After the soggy hypocrisy that had attended so much liberal internationalism, this Nietzschean approach had an undeniable appeal to many Americans. But for America's allies it raised certain problems.

In the first place, those allies found themselves relegated virtually to satellite status, their value judged according to their "loyalty," and their loyalty assessed by their readiness to accede unquestioningly to American demands. Such an attitude did serious harm to the alliance. The hectoring attitude adopted by certain congressmen and members of the Administration—Assistant Secretary of Defense Richard Perle was a particularly bad offender in this respect—only provoked European resentment and deeply embarrassed all friends of the United States across the Atlantic. It nourished that nationalist resistance to the alliance that has always been dominant in France, is beginning to be a serious problem in West Germany, is palpable even in Prime Minister Thatcher's Britain, and is making relations immensely difficult with the newest alliance partner, Spain. The web of mutual understanding and cooperation woven and maintained over the past forty years by NATO officials, diplomats, political and military leaders is too dense to be easily disrupted by a few ill-tempered *bêtises*; but subjected to a continuous barrage of such treatment from the hard-nosed realists of the new right, the alliance could rapidly become unworkable.

In the second place, if the United States simply "acts like a superpower," it will be perceived simply as a superpower—that is, another rogue elephant on the political scene from whose ravages other members of the international community will seek protection, either by some kind of communal nonalignment, or by a policy of maneuver between the two blocs.

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That indeed is the policy increasingly advocated by opposition groups within Europe. "Europe," both East and West, they argue, should detach itself from the dominance of its alien masters and constitute itself a stable, nonaligned "zone of peace" between the two nuclear giants. If Western Europe were to detach itself from the United States, so the thesis goes, the Soviet Union would no longer need to maintain its protective *glacis* in Eastern Europe, and the potentially lethal confrontation across the Iron Curtain would come to an end. It is an argument that has as yet made little headway outside the ranks of left-wing activists, but its plausibility is increased by the accommodating and reasonable attitude that Gorbachev's Russia is now beginning to adopt toward European affairs. The simultaneous emergence of a friendly and conciliatory Soviet Union and a cantankerous, bullying United States could make the task of European governments in maintaining domestic consensus—especially in West Germany—very difficult indeed. NATO might then face a really serious danger of being dismantled by an unholy alliance of left and right.

IV

This brings us, finally, to the problem of the American federal budget deficit. Little will be said about it here, since it will no doubt be treated in far more expert fashion on other pages of this journal. But it has always been recognized that the true security of Western Europe rests not on its military defenses but on its economic and social stability. This was the point stressed by Helmut Schmidt in his famous Alastair Buchan Memorial Lecture of 1977, one entirely missed by defense specialists who simply focused on—and arguably misinterpreted—the few words Schmidt devoted to the need for balance in intermediate-range nuclear forces. It was the achievement of that stability in the 1950s that banished the postwar fears of economic and social collapse with the resultant triumph of communism, a prospect that even then bulked larger than any purely military threat. It is the success in maintaining that economic and social stability that still keeps moderate right- and left-wing governments in power in Western Europe and has resulted in the disintegration of traditional socialism, to say nothing of the virtual disappearance of Marxism-Leninism. The collapse of that economic stability might not create the chaotic conditions so widely feared in the 1940s, which the Moscow-oriented communists of Western Europe

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were then poised to exploit, but it would certainly bring back into power all those political elements most hostile to the alliance. Western democracies vote governments out of power rather than vote their opponents in, and a vote of no confidence in the management of the economy is willy-nilly a vote of no confidence in defense and foreign policy as well. A serious economic recession would test the alliance almost, if not entirely, to the point of destroying it.

That is why America's friends in Europe have watched the mounting U.S. deficit with such anxiety; anxiety not assuaged by the fact that much of that deficit is accounted for by the scale of defense expenditure. There is little comfort in a situation where the economy is in ruins but defenses remain intact, for under such circumstances defenses do not remain intact for very long. A serious recession would do more to "decouple" Western Europe from the United States and move it in the direction of neutralism and nonalignment than the failure of the American government to match any particular weapons system that the Soviet Union may care to deploy against America's allies.

The absence of prudent management that resulted in the United States becoming a debtor nation on a Third World scale, and the inability of the American leadership to tackle the problem when the crisis made further prevarication impossible, did more to destroy European confidence in American leadership even than the Reykjavik summit or the Iran-contra affair. It was sadly typical of Washington's priorities that at the beginning of November, when stock exchange prices had been in free-fall for two weeks and world markets were beginning to panic, President Reagan went on the air, not to tell the Europeans what they were anxious to hear—that he had the economic problem in hand and that drastic action would soon be taken—but to assure them that the withdrawal of cruise missiles and Pershing 2s did not weaken American commitment to European defense. Arguably, this was a matter of concern to that small body of defense specialists who understood the issues, but quite irrelevant to the immediate worries of those far wider circles that make up European public opinion.

Whoever is elected president of the United States in the fall of 1988 will have a lot of hard thinking to do. The first requirement will be to restore order to the management of the economy, which will demand some harsh decisions about defense priorities. These must be taken in the light of a far-

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reaching reassessment of relations with the Soviet Union and, in consequence, with Western Europe; an update of NSC-68, a document written at a time of panic nearly forty years ago, will not be good enough. Whatever conclusions such a reassessment may reach, any policy based on them will need to take as much account of economic imperatives as of defense needs. The failure of the Reagan Administration to face this issue, far more than any White House horrors, may ultimately determine its place in the history books. The outcome of such a reassessment might produce some unpleasant surprises for America's European allies. But if it results in firm, rational and realistic policies, carefully thought through and consistently pursued, the United States will be able to count on sufficient support on this side of the Atlantic to preserve the stability on which both our security and our prosperity have depended for the past forty years. It is a great challenge: it remains to be seen whether there is in the United States today any leader great enough to meet it.

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Marshall D. Shulman

THE SUPERPOWERS: DANCE OF THE DINOSAURS

Mikhail Gorbachev recently expressed to a group of American visitors his hope that the United States and the Soviet Union would not appear to future historians like "two dinosaurs circling each other in the sands of nuclear confrontation." This colorful image well describes recent relations between the two superpowers: even though they are not marked for early decline or extinction, the two nations have shown a manifest inability to conduct their relations with a rational regard for their survival as great powers. Both the Soviet Union and the United States have been so constrained by parochial domestic interests and weighed down by outworn ideologies that they have been unable to summon up a competent and enlightened management of their affairs reasonably proportionate to their respective and common problems.

Both superpowers are heavily overmilitarized. In each country this has created a community with a stake in perceiving the other superpower as a mortal threat. The differences between the two powers are real, as is their competition. But it is a question of proportion. Those who seek to justify disproportionate militarization with a Manichaean ideological orthodoxy, whether out of zealotry or for economic gain, have undermined their countries' real security and capacity to adapt to the requirements of a rapidly changing world. In the case of the Soviet Union, overmilitarization has deepened the stagnation of an inept system. In the case of the United States, it has undermined the country's economic competitiveness, its financial solvency and the well-being of its society. This is the dance of the dinosaurs.

True, 1987 ended on a cautiously hopeful note. The atmosphere at the December summit in Washington was positive, and a beginning was made in controlling a marginal aspect of the nuclear military competition. But between shadow and

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Marshall D. Shulman is Senior Lecturer in International Relations at the W. Averell Harriman Institute for Advanced Study of the Soviet Union, Columbia University.

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substance is a great gulf. Atmospherics are gossamer, a creation of the manipulative arts; the stubborn reality remains that the military competition continues to spiral upward toward more unstable and complex systems, constrained only minimally by budgetary and resource limitations.

What gives the present moment a certain dramatic suspense, however, is the possibility that a new historical stage in the relationship is emerging, stemming largely from the radical efforts of General Secretary Gorbachev to modernize his country. The drama lies in the uncertainty surrounding two questions: whether he will succeed, even in part, against the formidable obstacles he faces at home; and whether he will be met by responsiveness and encouragement in this effort by the United States, and by a more enlightened American regard for its own self-interest.

If the future answers both questions affirmatively—and they are linked—the prospect exists for a management of the competitive relationship that is less irrational, dangerous and costly than it has been for the past four decades.

II

Like a suspension bridge, the relationship of the Soviet Union and the United States in 1987 hung on the events between two summits—Reykjavik in October 1986 and Washington in December 1987. Between these two occasions significant developments in the two powers' domestic conditions and foreign policies have had determining effects upon their relations.

For the Soviet Union, 1987 was a year in which Gorbachev's reforms were still rumbling down the runway, seeking to gain enough velocity for a takeoff. For each track of reform—economic restructuring, political revitalization, foreign and military policy—it was a year of starts, debates and compromises. Soviet "within-system" modernizers, who for 30 years have been seeking to overcome the dysfunctional effects of the Stalinist system, continued to struggle against the inert or resistant interest groups defending conservatism, orthodoxy, entrenched bureaucratic privileges, corruption and sloth.

Gorbachev's efforts to begin the restructuring of the Soviet economy reached a high point at midyear, and later ran into heavy sledding. The major event was the plenary meeting of the Central Committee in June: Gorbachev succeeded, despite debates that had forced the postponement of the meeting, in

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marshaling majority support for the keystone legislation of his program. "The Law on the Socialist Enterprise," enacted at the June plenum and scheduled to take effect on January 1, 1988, signaled the beginning of major economic surgery. Gorbachev's "new economic mechanism" called for increased autonomy for enterprises on the basis of self-management and self-financing, with a corresponding reduction in the authority of centralized planning organizations and the central ministries; steps toward the reform of the subsidized price structure; a "stage-by-stage" approach toward the international convertibility of the ruble; a rationalization of investment credits; and fuller implementation of legislation intended to encourage entrepreneurial activities in the service sector.

Leaving aside the complexities of the economic restructuring program, several of its features are relevant to U.S.-Soviet relations:

The fragility of political support for Gorbachev's economic reforms. In the near term, the reforms mean loss of jobs, privileges and power for strong bureaucratic interest groups. The benefits of reform, on the other hand, are promised for the long term and can appeal only to diffuse and less organized groups whose support is further tempered by the prospect of price increases and a fall in the standard of living. Moreover, Gorbachev's "kitchen cabinet" for economic reforms is notably less well placed politically than are his advisers on other tracks of his reform program.

The time factor. At the start the disruptive effects of reorganization, the application of quality controls and the introduction of new technologies may retard economic growth. (According to Western intelligence estimates, they already have done so.) The "new economic mechanism" is not scheduled to be fully implemented before the 1990s. It may be a decade or more before significant effects on the Soviet economy will be seen, even according to the most optimistic estimates. Arms control agreements offer no near-term prospect of relief from the economic drain of the military sector, which is estimated by Western analysts to be about 15 percent of gross national product, and which ties up critically needed technological resources.

Vulnerability to external factors. If the arms control negotiations with the United States do not progress to more significant levels, and if the United States continues to develop more

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technologically advanced weapons systems, the drain of military expenditures can be expected to increase.

Dependence on imports. The need for imported capital, technology and management skills, as well as grains and certain manufactured goods to offset domestic shortages, is acute, requiring Soviet foreign policy to maintain an international climate favorable to the expansion of such imports. The problem is only worsened by the U.S.S.R.'s shortage of hard currency. Reliance on imports, moreover, has been a matter of internal debate; some have argued against developing a dependency on foreign technology on the grounds that this creates a vulnerability to foreign manipulation and delays indigenous development.

In contrast to the uphill progress of economic reforms, the revitalization of domestic political life in the Soviet Union has been marked by dramatic developments—which have also, however, evoked reservations in orthodox quarters. Originally launched to enlist the creative intelligentsia to encourage entrepreneurial initiative and popular participation in economic reforms, the campaign for *glasnost* and *democratizatsia* (democratization) shows signs of taking on a life of its own. The campaign, if it is allowed to continue, could lead to greater autonomy and pluralism in Soviet society and culture.

Gorbachev's ideas about "democratization" evolved during 1987 to the point where they became an integral aspect of his total reform program. At a Central Committee plenum in January, Gorbachev won an endorsement in principle for greater democracy in the selection of party officials, although reservations were expressed about his proposal for secret ballots and competition among two or more candidates for the same position. Soviet television programs, some journals, plays and motion pictures carried the widening of permissible criticism into areas few Western observers would have thought possible—not only exposing corruption and incompetence within the economic and party bureaucracies, but questioning the privileges of the party elite, and even, in a few cases, abuses by the KGB.

Gorbachev's speeches, however, reflected the growth of concern within the party that freer criticism might lead to anarchy. Thus he insisted that control from the center would be maintained and that the one-party system would be preserved. Nevertheless, during the latter part of the year, the apprehensions and reservations of his conservative colleagues became

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more openly expressed. During the six weeks in which Gorbachev secluded himself, from mid-August to the end of September, Central Committee Secretary for Ideology Yegor Ligachev and KGB chief General Viktor Chebrikov were among those who warned against excessive latitude for the press and a permissive attitude toward democratization.

That Gorbachev felt the necessity of adapting to domestic political constraints seemed evident in his speech marking the 70th anniversary of the Bolshevik Revolution, delivered on November 2. He was guarded and selective in his targets: he criticized Stalin's excesses as "unforgivable" but defended the necessity of forced collectivization and the Nazi-Soviet Pact. He signaled the partial resurrection of Nikolai Bukharin, an advocate of the New Economic Policy of the 1920s, now hailed as an antecedent source of legitimacy for the current economic reforms. He did not, however, rehabilitate another disgraced Bolshevik, Leon Trotsky, whose prescient criticisms of rampant bureaucratism are echoed today, but who continues to be regarded by the intellectual elite as no less dictatorial than Stalin.

The impression that Gorbachev was trimming his sails in the face of domestic political head winds was strengthened by his handling of the strange affair of former Moscow party chief Boris Yeltsin. At the Central Committee plenum on October 21, one of Gorbachev's opponents, Geidar Aliyev, "retired" from the Politburo, and a summary draft of Gorbachev's 70th anniversary speech was reviewed and approved. Yeltsin, however, unexpectedly made a brief and highly emotional speech, which has not been published. Conflicting accounts were leaked—some claiming that he had bitterly attacked Ligachev and the party Secretariat for blocking reforms; others, less credibly, that he had criticized Gorbachev, whose supporter he had been. In any event, Yeltsin was removed as Moscow party chief on November 11 in a denunciatory session reminiscent of Stalin's purge trials, complete with self-condemnation.

The Yeltsin affair sent a chilling signal. Supporters of the reform program had to ask themselves whether the pace of reform had been permanently slowed by the conservatives, or whether Gorbachev had chosen to make temporary concessions, pending the party conference scheduled for June 28, 1988, at which he will seek to alter the composition of the Central Committee and strengthen his position for a renewed acceleration of the reform program.

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The point that has particular relevance to Soviet-American relations is this: it is misleading to measure the progress of Gorbachev's political revitalization against Western standards of pluralism and human rights.

Glasnost and *democratizatsia* represent significant aspirations for modernizing the Soviet system, but they have to be understood within the context of a political culture historically rooted in the idea that authority and order descend from above. This heritage also ensures stubborn resistance to reforms from strong elements of the party and KGB bureaucracies, habituated to the ruthless and arbitrary exercise of police controls. It should not come as a surprise, therefore, that while some political prisoners have been released from camps and prisons, many remain; that some who wish to emigrate have been allowed to do so, though many have not; that certain demonstrations have been permitted and others have been broken up; that some spontaneous political organizations have been allowed to form and function, while others are suppressed.

A relatively small group of "within-system" modernizers is leading the campaign for political revitalization, seeking over time to transform the political culture and to elicit mass support. Achieving their goals will take many years, even in the most optimistic projections. As is the case in his drive for economic reform, Gorbachev's campaign for political revitalization has been operating under domestic political constraints that also must be taken into account in assessing his conduct of foreign relations.

III

Gorbachev showed a continuing evolution in his foreign policy thinking in 1987. This policy is still subordinate to and derivative of his domestic economic priorities, and still seeks to avoid confrontation and new commitments. But Gorbachev has also been increasingly active and skillful in his diplomacy and his efforts to gain wider acceptance by world public opinion. More important, in what he has called "new thinking," Gorbachev has continued to widen and deepen the conceptual underpinnings of his policy, and the precedent-breaking pragmatism of its implementation. Here too the ideological implications of Gorbachev's conceptual departures have been a source of contention with party ideologues, and have required him to trim and blur the ideological revisionism implicit in his

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"new thinking," as was evident in his November anniversary speech.

In the course of the year, Gorbachev filled out a quadrilateral design of Soviet geopolitical thinking. His four points of emphasis were: the United States, Europe, the Pacific and Far East, and the Arctic.

Despite frustrations, relations with the United States remain the central preoccupation of Soviet policy. "There is no getting away from each other," Gorbachev observed in his new book, *Perestroika*. It is the key to everything else: reducing the danger of nuclear war, reducing military costs, increasing trade, resolving the main international issues.

The visits of major West European leaders to Moscow during 1987 demonstrated that the Soviet Union views Western Europe as diplomatically critical: as an instrument of political leverage on the United States; as a source of trade, credits and technology; and as a potentially independent factor in international politics. To encourage the latter possibility, Gorbachev developed the formula of "the common European house." The concrete meaning of this notion was not made clear, though it suggested an interest in movement toward a pan-European development. It was also not clear if this conception implied a willingness to accept closer functional bonds between Eastern and Western Europe and a greater degree of Soviet flexibility in exercising control over Eastern Europe.

Some evidence was suggested by Gorbachev's visit to Prague in April, during which he encouraged the East European allies to seek their own paths toward economic reconstruction. The Soviet Union was not necessarily the model to be emulated, he said; it appeared that he was prepared to tolerate a greater degree of diversity in Eastern Europe, perhaps even a communist "commonwealth" that emulated Britain's path toward reducing the costs of a dependent empire.

By the end of 1987 each of the East European countries was experiencing economic and political upheavals. Many of the Warsaw Pact allies—each in its own way, with no clear direction from Moscow—were struggling against economic stagnation with various reform programs. The effort seemed likely to bring to power a new generation of leaders, as it already had done in Czechoslovakia, where Miloš Jakeš replaced Gustáv Husák as party secretary in December.

As for the Pacific and the Far East, Gorbachev had emphasized the greater significance of the area in his speech at

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Vladivostok in July 1986. In his new book he referred to the area as "the place where civilization is stepping up its pace," and "where world politics will most likely focus [in the] next century."

Most of the proposals in the Vladivostok speech seemed designed to achieve an improved modus vivendi with the People's Republic of China. Vague Soviet schemes for a comprehensive system of security and economic cooperation in Asia now seemed intended not to isolate China, as in earlier iterations, but to draw it into closer functional relationships. By encouraging Mongolia to diversify its diplomatic contacts, by pursuing a political solution in Afghanistan and by encouraging the Vietnamese to consider diplomatic solutions in Cambodia, the Soviet Union seemed to be taking steps toward meeting conditions laid down by China for an improvement of Sino-Soviet relations. Japan, however, remained an unresponsive object of Soviet attention: despite offers of a possible Gorbachev visit to Tokyo, Japan remained obdurate, due to Soviet unwillingness to put discussion of Japan's claim to the Northern Territories (a group of four islands just north of Hokkaido) on the bargaining table. Public skepticism about Soviet intentions reportedly remains high in Japan.

The future of the Arctic as a forum of geopolitical attention was alluded to by Gorbachev in a speech at Murmansk in October: "The Arctic is not only the Arctic Ocean, but also the northern tips of three continents . . . also a problem of security of the Soviet Union's frontiers." He set forth a checklist of economic, military and political actions that must someday be taken in order to respond to the significance that technology will give this area.

In contrast to these points of greater emphasis, Gorbachev's foreign policy in 1987 continued to downgrade the prospects for Soviet gains in the Third World. This tendency was first signaled at the 27th Congress of the Communist Party in February-March 1986 and in its revision of the party program. Soviet analysts now see little revolutionary potential in the Third World, diminished utility in the Nonaligned Movement and little promise in national liberation movements when measured against the costs of supporting such efforts and the risks of interfering with more important objectives in relations with the United States.

Notably absent from Soviet analyses of Third World developments was any of the ideological optimism of earlier periods.

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This somewhat implicit challenge to ideological orthodoxy regarding the Third World was among the year's most striking conceptual advances in Soviet foreign policy. For example, in his September visit to Brazil, Argentina and Uruguay, Foreign Minister Eduard Shevardnadze stressed Soviet economic interests rather than political concerns and took pains to emphasize that the development of Soviet-Latin American economic relations was not intended to conflict with the region's relations with the United States.

Another radical departure from previous Soviet positions was an acceptance of the United Nations as a mechanism for the realization of an international order. In an extended article published in *Pravda* and *Izvestia* on September 17 (with cadences suggesting it might have been drafted as a speech to be delivered before the General Assembly), Gorbachev argued for a strengthening of the United Nations. It was a far cry from the historical Soviet rejection of international organizations as expressing the class interests of the dominant nations. As a concrete demonstration of its acceptance of the validity and utility of U.N. peacekeeping functions, the Soviet Union promptly offered to pay $245 million in past obligations for the support of these operations.

This advance was of a piece with one of the cornerstones of Gorbachev's thinking, that the revolution in science and technology had created an inescapable global interdependence, notably in economic matters but also in international politics. One of the implications of this interdependence that had a direct bearing on the general secretary's domestic programs was the recognition that the Soviet economy was inextricably involved in developments abroad, such as the stock market crash in October, the unsettled condition of currency exchange rates, the world price of oil and the possibility of stagflation in the West.

The development of new security concepts also continued, notably Gorbachev's insistence that the political aspect of security was more important than the military aspect, and that security was a mutual affair. "We can never be secure so long as the United States feels itself insecure," he said on several occasions. A concomitant proposition, he argued, was that it was necessary for every nation, including the Soviet Union, to give due account to the legitimate interests of other nations.

It remains to be seen how and to what extent these ideas will be translated into action in Soviet foreign policy. Often, as with

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his notions of a "comprehensive system of international security" and a "collective security system for Asia," Gorbachev tends to advance his concepts as ideas for international discussion, rather than as concrete proposals.

In particular, Gorbachev has been reticent to spell out the ideological revisionism implicit in his "new thinking" on foreign policy. His notion of a commonality of interests with capitalist countries calls into question the centrality of the "class struggle" in Marxism-Leninism, and the "contradictions" and "antagonisms," leading to crisis, stagnation, collapse and war-making inclinations, traditionally thought to be inherent in Western imperialism.

In his November anniversary speech Gorbachev sought to reconcile the prevailing ideology with his policy of seeking closer relations with capitalist countries—without precipitating a fight with the party's ideological bureaucracy. He cast the problem as a question:

> Since an alliance between a socialist country and capitalist states proved possible in the past, when the threat of Fascism arose, does this not suggest a lesson for the present, for today's world which faces the threat of nuclear catastrophe and the need to ensure safe nuclear power production and overcome the danger to the environment?

And as for the related questions—whether a capitalist economy can develop without militarization, and without exploitive neocolonialist relations with the developing countries—these are choices that capitalism must face up to, under the conditions that now prevail.

In short, Gorbachev was saying that, although the Leninist analysis correctly identifies the destructive tendencies inherent in capitalism, history will show whether capitalism will be able to adapt itself in an enlightened way to the imperatives of the modern world. Whether this concept was more cautiously phrased than it would have been without the apparent hardening of internal resistance to his reforms during the latter part of the year, or whether these formulations accurately reflect Gorbachev's own blend of pragmatism and ideological preconceptions, remains a matter of speculation.

IV

Tension between Soviet supporters of innovation and traditionalism was also evident during the past year in another track

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of Gorbachev's reform program: military policy. Certain trends in this debate require particular attention.

The relative autonomy previously enjoyed by the armed forces appears to have lessened, due to the death and replacement of a number of leading military figures and the party's consolidation of control over the military leadership. The bizarre landing on May 28 in Red Square of a private plane piloted by the young West German, Mathias Rust, provided the occasion for the dismissal of Defense Minister Sergei Sokolov. He was replaced by General Dmitri Yazov, who was promoted from relative obscurity by Gorbachev over a number of more senior military officers. In arms control, staffs were created in the International Department of the Central Committee and the Ministry of Foreign Affairs to give greater weight to the initiatives of party civilians, although Marshal Sergei Akhromeyev, chief of the general staff, played a prominent and supportive role in international negotiations.

On matters that might have been expected to arouse resistance from the professional military, such as the 18-month unilateral nuclear test moratorium that ended on February 26, the incorporation in the Intermediate Nuclear Forces (INF) Treaty of on-site inspection of Soviet military facilities, the admission of a group of American congressmen to the controversial radar site at Krasnoyarsk in September, and successive concessions in Soviet arms control positions during the course of the year, the party leadership appears to have had no great difficulty in getting its way. While the military press cautiously nuanced its position on some doctrinal innovations, and though some apprehensions about arms control agreements and anticipated budget reductions were reported among middle-level officials, the top brass appeared to recognize a self-interest in Gorbachev's efforts to divert resources to strengthening the industrial and technological base of the economy.

In the course of the year Gorbachev continued and extended the military doctrine that was first noted when Brezhnev declared, in the city of Tula in January 1977, that there could be no victors in a nuclear war and that the Soviet Union could see no advantage in pursuing military superiority. From that acceptance of parity, Gorbachev moved, in a speech at Prague in April, to making sufficiency the standard of Soviet military requirements. But whereas Gorbachev and the civilian analysts who further developed the concept tended to use the term "reasonable sufficiency," military writers more often qualified

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it as "defense sufficiency," implying more traditional requirements.

A greater emphasis on defense, particularly regarding conventional forces in the European theater, was a doctrine that developed during 1987. Soviet writings sought to distinguish between "offensive" and "defensive" weapons, and to argue for a shift to a defensive operational strategy, instead of the combination of mobility and concentrated firepower for rapid exploitation of breakthroughs which has created apprehension in Western Europe and stimulated NATO's corresponding development of more forward strategies. Although the Soviets have manifested an interest in the application of advanced technology to conventional weapons since 1983, when Marshal Nikolai Ogarkov was chief of general staff, more recent Soviet writings have reflected a mounting concern that Western technological superiority gives NATO an advantage in this competition. This awareness appears to have supported the Soviet interest in encouraging less offensive operational strategies on both sides. It is not clear whether these notions will go beyond words; no changes in deployment patterns have yet been observed—although it might be some time before such changes would be made, and before they would come to our attention.

One further development should also be noted: there are indications in military writings, both by civilians and the professional military, that the Soviets have come to assign a higher value to stability and predictability as a result of arms control negotiations with the United States. Another shift of emphasis has been a growing Soviet attention to the importance of conventional arms control. This reflects a number of considerations: Gorbachev's emphasis on the political aspects of security; the necessity of assuaging West European apprehensions about the scale of Soviet conventional capabilities, especially in the period after the conclusion of the INF treaty; and a recognition that without some progress on conventional arms control further steps toward limiting strategic nuclear weapons would be more difficult—if not impossible.

While the Soviet Union has not yet advanced a detailed conventional arms control proposal, it has taken a number of steps designed to meet Western objections. In April 1986 Gorbachev proposed broadening the geographical zone for force limitations from the two Germanies, Poland and Czechoslovakia to an area "from the Atlantic to the Urals." For the first time, the Western military districts of the Soviet Union

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would be included in the negotiations, and these areas would be open to on-site inspection. In June 1986, as part of the Warsaw Pact's "Budapest appeal," Gorbachev added a proposal for phased troop reductions of up to 500,000 men, and reductions in tactical nuclear aircraft and nuclear weapons with ranges over 1,000 kilometers, to diminish the danger of surprise attacks. In February 1987, at an international forum on peace in Moscow, Gorbachev said that "all armaments should be limited and reduced," and added that the most threatening kinds of offensive weapons should be removed from the zone of contact between blocs. He addressed Western concerns about military force asymmetries by saying that they should be dealt with by asymmetrical reductions, and repeated this offer in Prague in April.

Progress toward a comprehensive conventional arms control agreement is likely to continue to be slow, but political advantages and potential savings in costs and manpower make this effort attractive to the Soviet Union. Some of these advantages could be realized by limited unilateral steps, as an interim measure, if the party feels able to manage the opposition of the military bureaucracy.

V

For the United States, relations with the Soviet Union during 1987 continued to be subject to the vicissitudes of domestic politics, as has been the case during the four decades since the end of World War II.

For almost a decade the United States has experienced a conservative political tide and a related resurgence of nationalism in foreign policy. This mood has been expressed through the elevation of anticommunism to be the main organizing principle of foreign policy. Reacting against what it characterized as the "liberal illusions" of the previous period, this view has supported greater activism abroad and increased military strength to counter what was perceived to be a heightened threat from the Soviet Union.

Popular attitudes toward the Soviet Union hardened in response to Soviet actions in Angola, Ethiopia and Afghanistan, as well as to Soviet abuse of human rights and the continuing large Soviet military programs. These feelings were intensified by a backlash against the unrealistic expectations aroused by the so-called détente period, and by a widespread sense of impotence arising from the experiences of Vietnam and, more

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recently, Iranian hostage-taking—all during a period marked by the passing of American military superiority.

These were the themes on which the election of 1980 brought in a president of immense popularity and political influence, and they were the themes that dominated foreign policy during Ronald Reagan's first term and half of his second term. Given an intellectual foundation by the neoconservative movement, the prevailing political climate regenerated an orthodox view of the Soviet Union as an inherently and unchangeably aggressive and totalitarian entity, with which no productive negotiations were possible. The policy that derived logically from this view was the application of external pressures with the aim of forcing the Soviet system to change its fundamental character. It followed from this view that the security of the United States could only be assured by military superiority—that arms control agreements would be disadvantageous to the United States, leading to de facto unilateral disarmament.

Fixated on the Stalinist model as the unchanging and unchangeable pattern of Soviet behavior, the dominant orthodoxy remained committed to confrontational relations through the later Brezhnev, Andropov and Chernenko regimes. This conservative and anticommunist outlook, with skeptical reserve, began to question its assumptions only well into the first year of Gorbachev's leadership.

When it came, this questioning was accelerated by a mounting series of domestic problems, which came to a head during 1987. The precipitate decline in the Administration's influence and effectiveness resulting from the Iran-contra affair, and from the loss of control of the Senate to the Democrats in the November 1986 election, made the conduct of foreign policy more contentious and erratic, particularly because the principal issues—Nicaragua, the Strategic Defense Initiative (SDI) and the interpretation of the Anti-Ballistic Missile (ABM) Treaty, defense appropriations and arms control issues—highlighted the ideological divide between the two parties and the two branches of government.

On the economic front, the stock market crash in October focused attention on a federal budget deficit of nearly $200 billion, a continuing trade deficit in spite of the dollar's drastic exchange rate decline, the American economy's uneasy dependence on foreign capital and the possibility of a recession. What gave these immediate problems greater significance,

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however, was the growing perception that they might be manifestations of a long-term systemic decline in the world position of the U.S. economy. Not only had America's share of world industrial manufacture been declining, but it also appeared that the United States was losing its leading position in some important aspects of advanced technology. The decline in agricultural exports, diminished American competitiveness in world markets and the consequent financial vulnerability of the United States to the decisions of foreign creditors and debtors all contributed to uncertainty over whether these trends were transient and correctable or indicated a long-term relative decline. Protectionist sentiment grew within the United States as a consequence of these developments, as did strains in relations with America's West European and Japanese trading partners.

There are many factors involved in these complex developments, but one inescapable conclusion is that the disproportionate growth of the military sector has been a major factor in the budget deficit's growth, the decline of American competitiveness, and inadequate support for education and social services in the United States.

Military expenditures approximately trebled in the past decade. They approached two trillion dollars over the past six years, and now constitute about 30 percent of the federal budget—between six and seven percent of our gross national product. Part of the explanation for the scale of these military expenditures is that it is easy to invoke unexaminable estimates of the Soviet threat, and difficult in the present climate for a politician to withstand charges of being weak on defense and soft on communism.

A more fundamental reason is that defense policy decisions result from the interplay of parochial pressures and interests, rather than a comprehensive and rational determination of the national interest. Matters are left to bargaining between the military services, to the influence of defense contractors, and to the vying economic and political interests of congressional districts.

The consequences of this disproportionality are manifold. Although there is some spin-off benefit to the industrial sector from defense expenditures, it is far outweighed by the drain of research capabilities—laboratories, scientists, engineers—to the military sector, at the expense of America's competitiveness in civilian technology. The pursuit of military superiority has

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forced development of increasingly complex weapons technology, making future prospects for rational management of the nuclear military competition more difficult. Like the Soviet Union—which has been equally irrational on this score—the United States has assembled unprecedented power for destruction beyond any reasonable measure; as a result, the security of both countries has been diminished.

As already noted, however, the year ended on a hopeful note. A few days before the Washington summit the president signaled a shift toward a more centrist position on the possibility of improved Soviet-U.S. relations: he broke with the right-wing ideological extremists who had long regarded him as their champion. Following the summit the president restated his position that the Soviet Union, under its new leadership, may have changed in fundamental ways and no longer sought world domination. Mr. Reagan hinted that this development implied no change in his policy because a change in Soviet policy was the long-intended culmination of his military buildup.

In any case, the implementation of this new stage in the president's thinking was made more feasible by the recent resignation of several leading hard-line officials. Their departure, the ascendancy of more centrist officials and the alienation of right-wing extremists represented a significant change in the political spectrum.

VI

The net effect of these developments within the Soviet Union and the United States was a cautious trend toward improved bilateral relations during 1987. Each side had domestic incentives for improvement, and each side also met strong domestic constraints that limited how far that improvement could go in substantive matters. On balance, the result can be characterized as a notable easement in tone, a modest start toward arms control, and a steadiness in matters of continuing disagreement.

After the Reykjavik summit of October 1986, the relationship was in disarray. Gorbachev had dangled the prospect of substantial cuts in Soviet heavy missiles and the possibility of a total elimination of nuclear weapons in ten years in an effort to move the president to accept limitations on the development of SDI. The president had responded on the spot with improvised offers to accept the abolition of nuclear weapons, or of all ballistic missiles (it was not clear which), but he had refused to accept limitations on SDI. The talks broke down on this issue,

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although both sides sought to put a cheerful face on what was a disappointing setback. The most serious consequence was a deep alarm among America's NATO allies that the president could contemplate such far-reaching changes in the West's defense posture with so little consideration, and so little consultation. Western Europe has been slow to recover from this loss of confidence in American leadership.

However inclined Gorbachev may have been after Reykjavik to give up hope of dealing with the Reagan Administration, it became apparent in the following months that such was a luxury he could not afford. He resumed a dogged effort to work toward whatever limited agreements might prove feasible, on the grounds that without any agreement, the military competition would continue to mount during the Administration's remaining two years, and that any agreement with a conservative president with strong anticommunist credentials would ease the American political community's acceptance of future agreements.

In the absence of effective back-channel communications that had served in contacts with previous U.S. administrations, Gorbachev opted in January 1987 to upgrade the Geneva venue by appointing the highly capable first deputy foreign minister, Yuli Vorontsov, as chief negotiator. In the following months a more serious effort began to draft an agreement on INF, as well as on central strategic systems, testing and chemical weapons. As difficulties arose, the process was facilitated by a series of meetings in Moscow, Washington and Geneva between Foreign Minister Shevardnadze and Secretary of State George Shultz.

A curious hitch developed during the October 22–23 meetings of Shultz and Soviet leaders in Moscow. Gorbachev showed a reluctance to give his expected assent to the Washington summit, saying that he felt "uncomfortable" with so thin a package. Whether it was the unsettling effect of the Yeltsin affair at the Central Committee meeting the day before or whether, as seems more likely, Gorbachev was making one more effort to make progress on the SDI issue, relying on the pressure of Congress and the budgetary strictures that could be expected to result from the stock market crash of October 19, is still not clear. In any event, the negative reaction to Gorbachev's hesitation was clearly greater than he had intended, and he quickly sent Shevardnadze to Washington to nail down the summit with a face-saving agreement that SDI

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and the Strategic Arms Reductions Talks (START) would also be open to discussion. The INF treaty was then finished and the date for a signing ceremony in Washington was set.

In the meantime other aspects of the relationship developed in a businesslike manner. In April agreement was reached on joint activities in the exploration of space, reinstating an agreement originally negotiated in 1972. In May agreement was reached for the sale of four million tons of wheat by the United States to the Soviet Union, and in the same month negotiations were completed for the establishment of risk-reduction centers to improve communications in the event of certain crises. Also in May the Soviet Union ceased jamming the broadcasts of Voice of America.

A number of events that might in previous periods have resulted in high tension were managed at more moderate levels. The most serious was the arrest of several marine guards on charges that they had collaborated in KGB efforts to penetrate the U.S. embassy in Moscow, together with the revelation that the new Moscow embassy building had been so thoroughly implanted with Soviet listening devices that it would be unusable without major changes. In February the Soviet Union grumbled over its unfavorable characterization in a television dramatization, "Amerika." In June the president, in a speech in Berlin, challenged the Soviet Union to dismantle the Berlin Wall, a call the Soviet Union characterized as "reckless." In September an American soldier was shot but not seriously wounded while on a routine patrol in East Germany. Also in September, the United States remonstrated when a Soviet intercontinental ballistic missile (ICBM) test-flight landed uncomfortably close to Hawaii.

When President Reagan made a number of speeches in the late fall reaffirming his earlier negative characterizations of the Soviet Union, Soviet commentators were inclined to dismiss them as a necessary political propitiation of his right-wing supporters. It was a mark of the two countries' steadiness of purpose in this period that none of these matters was given more than passing exploitation.

The Soviet-American summit, which began on December 7, was limited to three days in Washington. The president had expressed the hope that the general secretary would make an extended visit across the country, but Gorbachev's preference was for a brief and businesslike session, on the grounds that

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the one agreement to be signed would make a larger occasion inappropriate.

A measured judgment at this time would suggest that the Washington summit was successful in launching a marginal but significant arms control agreement, but not in achieving agreement on most political issues on the agenda. The summit's greatest significance was in the positive tone it established for the relationship.

On December 8 the president and the general secretary signed a treaty which provided for the dismantling of all Soviet and American medium- and shorter-range missiles and established the most extensive system of weapons inspection ever accepted by the two countries. The treaty requires the United States to destroy 859 missiles: 429 medium-range Pershing 2s and ground-launched cruise missiles deployed in Europe, 260 medium-range missiles not deployed, and 170 Pershing 1A shorter-range missiles stockpiled in the United States. The Soviet Union is required to destroy 1,752 missiles: 470 medium-range SS-20 and SS-4 missiles deployed, 356 medium-range missiles not deployed, 387 deployed shorter-range missiles and 539 of these weapons in storage.

With regard to the negotiation on central strategic systems, the two leaders referred the unresolved problems for further discussions at Geneva, in the framework of the 50-percent reductions agreed at Reykjavik. Some sub-ceilings on weapons categories were agreed during the summit: within an agreed overall ceiling of 6,000 warheads, a compromise figure of 4,900 was agreed to for a sub-ceiling on land-based and sea-based ballistic missiles. The objective of a 50-percent reduction in heavy ICBMs was also affirmed. The negotiations about sub-ceilings for each category of delivery system involve changes in each country's force structure, which will make the negotiations difficult and prolonged, as will the working-out of detailed verification measures, building upon the precedents established in the INF treaty.

The two leaders were unable to agree on SDI, which was discussed in terms of "broad" versus "narrow" interpretations of the ABM treaty. At the last moment the two leaders accepted compromise language to patch over their disagreement, which nevertheless resulted in the first post-summit argument between them. The president first claimed that the summit agreement left the United States free to go forward with research on and development of SDI as it chose. ("As required" was the

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language of the joint statement.) He was contradicted by Gorbachev, who made it clear that if the United States, in pursuing SDI, violated the ABM treaty as originally interpreted, the Soviet Union would not go forward with proposed reductions in central strategic systems.

Other arms control issues, concerning nuclear testing, chemical weapons and conventional weapons and forces, were discussed at the summit, but their status was left unchanged.

Among the regional issues, the discussion of Afghanistan was lengthy but inconclusive. The Soviet Union sought a commitment from the United States that it would cease aid to the insurgents concurrent with the beginning of the staged withdrawal of Soviet forces, apparently in answer to a question Gorbachev posed before his arrival: whether the United States did or did not want to see a political solution of the problem. Negotiations on Afghanistan are, however, continuing under the aegis of the United Nations, and more progress may have been made in the private discussions than was reflected in the final summit communiqué.

Another regional issue, Nicaragua, left some unanswered questions. Gorbachev was reported to have mentioned in passing a willingness to cut military aid to Nicaragua under certain conditions. The matter was not followed up at the summit, but several days later the United States brought forth a Nicaraguan defector who reported that his country had sought extensive military aid from the Soviet Union as part of a plan for a buildup of a 500,000-man armed force with modern equipment. The news helped to influence congressional support for appropriations to aid the Nicaraguan contras. Gorbachev was not asked about the defector's report.

While no progress at the summit was reported on the issue of Soviet support for a U.N.-led weapons embargo against Iran, Soviet statements several weeks later reflected a more open attitude toward the question, linked however to the earlier Soviet suggestion that any embargo's enforcement be left to a naval force under the U.N. flag.

Human rights proved to be the prickliest issue at the summit. In contrast to the forthcoming tone taken by Foreign Minister Shevardnadze during his visit to Washington on October 30, and his agreement to set up a channel through Deputy Foreign Minister Anatoly Adamishin for the discussion of individual cases in which the United States had an interest, Gorbachev bristled truculently in public and private summit sessions when

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asked about Soviet human rights policies. In the final communiqué only 22 words were devoted to the subject, and they simply reported that the matter had been discussed.

While it seemed apparent that Gorbachev did not want to be in the position of making concessions on the issue under public pressure, the Soviet Union appears anxious to get the issue out of the way. The monthly number of Jewish emigrés rose from 98 in January to 910 in November, and it seems likely to have exceeded an annual total of 8,000 by the end of 1987. The Soviet government has agreed to act upon pleas submitted by the United States on behalf of divided spouses, dual nationals and persons refused emigration visas. It may be interesting to note that the emigration of ethnic Germans from the Soviet Union rose from 1,000 a month in April to 2,000 in October, and Armenian emigration from the Soviet Union rose from six in January to 682 in November.

While not much progress was reported on the trade issue, expanded exchanges and cooperative programs on science and technology, a probe of Mars, and environmental programs were agreed upon.

Perhaps one of the most significant results of the summit was that Gorbachev successfully projected himself to the American public and the Congress. Public interest in and knowledge of the Soviet Union has been substantially increased by his visit, and it is reported that travel by Americans to the Soviet Union projected through this summer is running about 60 percent higher than it was last year.

Although Gorbachev spoke warmly about the beginning of a "new phase" in Soviet-American relations and "a deepening political dialogue" in his final ebullient press conference in Washington, he made the point somewhat more soberly in his televised report to the Soviet people on his return to Moscow. On that occasion he acknowledged that "it is not easy to comprehend" whether changes were occurring in the position of the United States, and he added: "I must tell you that if one sticks firmly to the facts and does not slip into exaggeration, then it is too early at the moment to speak about a fundamental turning point in our relations. Too early yet."

Inevitably in the post-summit *tristesse* and fatigue, and amid conflicting interpretations of the agreements reached, there will be some letdown from the warmly positive tone of the summit. One storm cloud on the horizon is the discussions between the British and the French of possible joint production

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of an air-launched cruise missile to replace the U.S. and Soviet missiles scheduled for destruction. But the United States and the Soviet Union have agreed that the follow-up visit of President Reagan to Moscow, tentatively scheduled for the spring of 1988, need not be dependent on the successful conclusion of a START treaty. After its repeated attempts to persuade Mr. Reagan to bargain for cuts in Soviet missiles in return for limitations on the SDI development program, the Soviet Union seems to have concluded that the best it can hope for from this president is some progress on the details of an agreement for reducing strategic systems, in the expectation that a strategic arms treaty may be consummated with the next administration.

VII

In the competition between the Soviet Union and the United States, the decisive question is likely to be which country can most effectively adapt its institutions and its policies to the new requirements of international life as we approach the 21st century.

Gorbachev addresses the problems of the changed conditions of international politics. What he calls "new thinking" is an effort on a heroic scale to adapt his nation's stagnant economy and outworn ideology to face the world of advanced technology, the danger of war, the costs of overmilitarization and the interdependence of the global economy. The problems he faces are formidable, larger in scale and more complex than those of any other leader anywhere. At this point one can only be agnostic about his chances for success, even in part.

The United States starts with many advantages, chief among which is the capability of its political system to correct its failings. But preoccupied as it has been with its domestic politics and problems, the United States shows little sign of understanding the requirements for its survival as a great power in a complex and rapidly changing world. Will it be capable, in this period of its resurgent nationalism, of rekindling the bipartisan spirit of internationalism that enabled it to provide constructive leadership in the postwar period? Will it be capable of giving reassurance and enlightened leadership to its anxious allies, and preserving the vital core of democratic values as the nucleus of international order, constraining the egoism of nations? These are among the questions the two countries face as they begin to understand the importance of the international context of which their relationship is only a part.

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Robert B. Reich

THE ECONOMICS OF ILLUSION AND THE ILLUSION OF ECONOMICS

Societies, like individuals, often want to avoid facing their most pressing problems. Recognizing reality can be painful; addressing it can be even more painful—requiring sacrifice and change. Thus societies, like individuals, often deny that their problems exist. Or they erect "straw men," which are not the real problems at all, and try to confront them instead. Or they deny responsibility for problems, blaming others. America has been using all these ploys to avoid coping with its economic mess.

Some still deny a problem exists. Those who call themselves "supply-siders" claim that, notwithstanding the nation's mounting indebtedness to the rest of the world (estimated at more than $350 billion by the close of 1987) and the sudden drop of over 508 points in the Dow Jones Industrial Average on October 19, the economy is still buoyant, and we have only to keep taxes down in order to reap the eventual rewards. Monetarists are somewhat less optimistic, but their solution is no less simple: the Federal Reserve Board must exercise a steadier hand in controlling the money supply. As reality has steadily intruded upon orthodoxy, however, these two schools of denial have claimed fewer and fewer adherents. Both supply-side economics and monetarism share a rare but unfortunate distinction among economic theories: they have been tried in practice, and they have failed.

The stock market crash of October 19 came as "reality therapy"; for the moment collective attention was genuinely engaged. But even among more conventional economic experts, denial has set in. The problem, say the pundits, is to avoid recession and regain the confidence of Wall Street by trimming the federal budget deficit—cutting public spending and, if necessary, raising taxes. But there is an awkwardness to

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Robert B. Reich teaches political economy and management at Harvard's John F. Kennedy School of Government. His most recent books are *Tales of a New America* and *The Power of Public Ideas*, of which he is co-author and editor, respectively.

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this diagnosis. True, the budget deficit has grown. Yet for the five years before August 1987, the Dow Jones Average grew along with it. If the federal budget deficit is the core problem, when did it become so? And why did it so suddenly create havoc, in a year when the projected deficit was almost one-third below what it had been in 1986? More to the point, why is it so important to regain the confidence of Wall Street anyway? The Street's confidence over the last few years was so misplaced—buoyed by takeover threats and speculation—that we should feel relieved it has abandoned its delusions.

There is a problem with the conventional prescription as well. Frugality is a questionable cure for a pending recession. To raise taxes and cut public spending now would reduce overall demand for goods and services precisely at a time when demand is already poised to fall. The sudden disappearance from the stock market of half a trillion dollars is unlikely to induce consumers and corporations toward extravagance any time soon. The combined contraction, to the contrary, could convert a mild recession into a severe one.

We find ourselves inside an economic straitjacket, where all the traditional tools of macroeconomic policy are tightly constrained. To expand the money supply to offset the budget cut is to risk a further decline in the value of the dollar, along with inflation. This in turn might prompt foreign lenders (whose continuing fealty has allowed us to deny the seriousness of our economic problems in the first place) to demand higher interest rates in order to counteract the declining worth of our repayments to them. But higher interest rates could plunge us into a severe recession as well. There is little room to maneuver. The probability of a recession within a year to 18 months is relatively high.

The conventional view of the public objective (to restore Wall Street's confidence), of the problem (the budget deficit), and of the solution (to cut public spending), has distracted us from facing the reason it is so difficult to avoid a recession this time around, and has thus prevented us from taking steps to assure greater maneuverability in the future.

II

If none of the other standard methods of denial work, there is always the possibility of blaming others for our economic problems—in this case, foreigners. In the year before a presidential election, foreigners are the perfect foil. Candidates can

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talk tough without committing public money; foreigners cannot vote.

The Reagan Administration has insisted that it wants to "coordinate" its economic policies with other advanced industrial nations, but says the others have been resisting. The Louvre accord of February 1987, in which the major trading nations agreed to stabilize currencies and simultaneously reduce America's budget deficit while expanding their own economies, seemed a step in the right direction. But in the late summer and early fall West Germany had the temerity to raise its interest rates—prompting Treasury Secretary James Baker to announce on October 18 (the day before Black Monday) that, in response to their uncooperativeness, the United States would allow the dollar to fall. In other words, the economic strain was *their* fault, and they were to be punished for it.

Left out of the Administration's calculation has been Japan's and West Germany's understandable skepticism that the United States will fulfill *its* side of the bargain. Not even the flurry of post-crash negotiations between the White House and Capitol Hill produced much more than the already-mandated Gramm-Rudman cuts. The Japanese worry about their own large budget deficit and about the future needs of their rapidly aging population; the West Germans are chronically afraid of inflation and are suspicious of Americans' spendthrift habits. From the viewpoint of these countries, the Reagan Administration has been unreasonable, even hypocritical, in blaming them for the deteriorating economic situation. It is as if the town drunk were criticizing everyone else for excessive sobriety.

By the start of 1988—as Japan, West Germany and other trading partners were reducing their interest rates moderately in response to their fears of a declining dollar—policymakers in Washington, Bonn and Tokyo were talking vaguely about stabilizing the dollar once again, but no one would say at what level or how. Some American officials were quietly predicting that the dollar would have to fall by another 20 percent or so to cure the U.S. trade imbalance. Yet a falling dollar would impose significant penalties upon the likes of Japan and West Germany, whose exports to the United States would become correspondingly more expensive and thus fewer. Germany is already experiencing high unemployment; a further decline in exports would push unemployment perilously higher. Were the United States to balance its trade account by importing less

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or exporting more, four million additional Americans would be put to work, but approximately the same number of foreigners would become jobless—two-thirds of them Japanese and Europeans. This is hardly a recipe for future coordination or cooperation.

A second means of blaming foreigners has fast become a campaign theme of both Republican and Democratic contenders: our mounting economic problems are attributable, at least in part, to our allies' insistence that we defend them from communists and terrorists, despite their unwillingness to pay a fair share of the cost of such defense. Were our trading partners to pay their due, our budget and trade deficits would shrink markedly, or so the argument goes.

It is true that the defense burden is unequally allocated. In 1983, for example, Americans produced a little over 40 percent of the combined gross national product of the United States, Japan, France, Great Britain and West Germany, yet provided almost 57 percent of the group's defense spending. By contrast, Japan's share of advanced-nation GNP was 14 percent but its defense share was only 3.3 percent. But here again, the blame is not without a touch of hypocrisy. Our trading partners have never insisted that we bear this disproportionate share. It is, rather, a price we have been willing—even eager—to pay, in order to contain what we have perceived to be the spread of world communism (a concern shared by our allies, but rarely to quite the same degree), and to ensure our continued leadership in the defense of the free world. The Reagan Administration showed little reluctance in raising American defense spending from its low of 4.6 percent of GNP in 1979, to almost 7 percent in the 1980s—an explosion that partly accounts for America's mounting indebtedness—while simultaneously reducing foreign aid and support for international institutions.

Of course, it may be necessary in future years for all allies and trading partners to foot a larger part of the combined cost of defending us all. But such a move would not be without political consequence: America would no longer be in the same position of leadership; our allies would be more independent of us, able and perhaps willing to seek different accommodations with the Soviets and other perceived threats. In addition, a militarized Japan and more militarized West Germany would represent a substantial change in how we and they, and others, understand their power in the world. Amid growing fears of American abandonment in the face of Soviet conventional

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forces, West European leaders are already talking of defense cooperation among themselves and of a greater European role in NATO decision-making. However the issue may be resolved, there is no basis at this juncture for arguing that our economic predicament is wholly or even mostly attributable to our allies' unwillingness to bear a fair burden of the common defense.

III

Congress, meanwhile, has been devising a third means of blaming foreigners for our economic problems, and of deflecting costs upon them. A mammoth new trade bill emerged from the House of Representatives during the year, designed, according to its progenitors, to ensure that American exporters competed on a "level playing field." Most of the bill's provisions would reduce presidential discretion over what to do about foreign nations found to have kept American goods out of their home markets, subsidized their exporters, or "dumped" their goods on American soil. Missouri Congressman Richard Gephardt, a Democratic presidential candidate, has championed a provision that would penalize imports from nations that maintained trade imbalances with the United States. He argues that his innovation is designed not to protect the American market but to open foreign markets; it would apply only to nations whose imbalances were large and maintained over several years; such nations would first be given an opportunity to negotiate; and penalties would be imposed gradually. Regardless of whether the overall bill—with or without the Gephardt Amendment—can fairly be described as "protectionist," its focus is indisputably on the transgressions of foreigners.

The Reagan Administration, not to be outdone, and perhaps to forestall even more extreme measures by Congress, has vowed to "get tough on unfair foreign trade." The past year has marked a sharp turn toward toughness. First came a stiff duty on Canadian softwood shakes and shingles in response to alleged unfair subsidies, followed by 100-percent tariffs on $300-million worth of Japanese electronics products in retaliation for Japan's apparent dumping of semiconductors in *third* markets, a brief war with the European Economic Community over citrus and pasta, threatened tariffs on $100-million worth of Brazilian imports in response to Brazilian curbs on American computers and software products, talk of additional tariffs on $100-million worth of food imports from Europe in retaliation for bans on meat from animals treated with growth hormones,

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and a movement to withdraw special duty-free preferences for products from developing nations that have maintained substantial trade imbalances with the United States. C. William Verity, the newly appointed secretary of commerce, has warned the Japanese of reprisals unless American corporations are allowed to bid on contracts to build the planned Kansai International Airport.

Summarizing these and related developments, Special U.S. Trade Representative Clayton Yeutter recently touted what he terms the Administration's "extremely aggressive" approach to foreign trade. "Some of our trading partners have complained loudly about what they see as high-handed American practices," he said. "But that won't dissuade us from protecting our interests."

Here again, the responsibility for America's economic problems has been safely externalized. It is true, of course, that some nations subsidize their exports to us and hobble our exports to them. But absent international agreement on what sorts of subsidies and non-tariff protections are unfair, America's responses merely reflect what the United States unilaterally deems to be unfair. The dominant metaphors create the impression of unsportsmanlike, if not indecent, behavior—"tilting the playing field," "dumping"—when in reality the playing field has always been as hilly as the Ozarks, and dumped goods are often known to American consumers by the less pejorative term "bargains."

Our trading partners may sense hypocrisy here as well. All told, by the end of 1987, fully 35 percent (by value) of the goods produced in the United States were protected by some form of nontariff barrier—including countervailing duties, anti-dumping levies and so-called voluntary restraint agreements ("voluntary" only to the extent that our trading partner willingly accepted American demands to hold back exports under threat of more severe quotas should no agreement be reached). The comparable figure in 1980 had been 20 percent. Moreover, the U.S. government continues to subsidize American industry to a degree that makes most other nations seem like laissez-faire purists by comparison. Federally subsidized loans and loan guarantees, state and local tax abatements, and generous grants of "eminent domain" authority are routinely available to American businesses. Over one-third of all the research and development costs of American corporations are now funded by the federal government.

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The Defense Department and its sister agencies—the Department of Energy and the National Security Agency—have emerged as the most magnanimous and determined developers of American technology. The past year has marked something of a record. In January the Administration formally approved a $4.4-billion plan for building a "superconducting supercollider," a 52-mile underground racetrack for subatomic particles deemed by the Energy Department to be "critical" for America's international competitiveness in related technologies. Then in July the president announced that the Pentagon would lead a $150-million effort aimed at developing practical applications for "superconducting" materials—special alloys that, when cooled, lose all resistance to the flow of electric current. The National Security Agency, meanwhile, has been pouring $20 million a year into its Supercomputer Research Center, which is seeking to build the world's fastest computers. In October the Pentagon agreed to fund Sematech, a research joint venture comprising America's leading semiconductor manufacturers, designed to improve their manufacturing competitiveness. And at the end of the year the National Aeronautics and Space Administration, whose mission has drifted steadily toward Defense Department needs, awarded $5 billion in contracts to design and build components for a space station—a project justified by NASA as having "potentially vital consequences for the nation's defense and its competitiveness."

Other Pentagon "competitiveness" projects include the funding of computer-integrated manufacturing facilities, computer-aided design technologies, robots, very large-scale integrated circuits, complex software, new materials technologies, and a wide range of other gadgets applicable to the nation's commercial competitiveness. The Administration has even sought to justify "Star Wars" in part by reference to all the fancy new technologies it presumably will spawn; the director of the project recently claimed that it would "so stimulate the national economy that it will pay for itself" through commercial spin-offs. And, for an ever-growing list of complex gadgets, the Pentagon has decided to "buy American"—limiting its purchases to American corporations. Indeed, at the very time the United States was excoriating Japan for barring American contractors from bidding on its new airport and for discouraging purchases of American-made supercomputers, the Pentagon was deterring the Massachusetts Institute of Technology from buying a Japanese supercomputer, and Congress was

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instructing the Defense Department to buy all its large computers from American companies.

In short, the Pentagon and its sister agencies have become the source of America's high-technology industrial policy—a policy that is more costly, complex and intrusive upon the private sector than any ever imagined by our trading partners. The problem is not that they do it and we don't. The real problem for us is that we do it under the aegis of national defense—which is an exceedingly awkward and inefficient way to promote high technology—while they do it more openly and directly.

Blaming others for our economic problems may be reassuring, but has two unfortunate consequences. It makes others angry and resentful, and thus less inclined to cooperate over the longer term. And it makes us less inclined to take responsibility for what needs to be remedied in ourselves—the issue to which I now turn.

IV

Our nation's growing economic problem, of which Wall Street has finally become aware, is due neither to the federal budget deficit per se, nor to foreigners' unwillingness to treat us fairly. It is due to our overwhelming failure to invest in our collective productivity, and the consequent decline in our capacity to add value to the world economy.

Indebtedness would be no cause for great alarm if the proceeds were invested in our future productivity. America's foreign debt is still small relative to its gross national product; Mexico has borrowed twice the amount as a proportion of its GNP. In the nineteenth century we borrowed far more, relatively speaking. But a century ago the loans were invested in factories, railroads, oil wells, inventions and an array of other assets that produced future wealth. Not this time around. We are consuming our way into economic oblivion. In 1986, for example, the nation generated some $800 billion more in goods and services than it had in the recession year of 1982, but we spent $900 billion more—Mr. Macawber's recipe for eventual misery. Even Wall Street's reverie before Black Monday was based not on productivity gains but on threats of takeovers, which prompted corporations to do whatever was necessary to raise their share prices in the short term—often cutting back on long-term investment while purchasing their own shares

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and going deeply into debt. The balloon had to burst eventually, and it did.

Without a surge in productivity, the present debt cannot be repaid unless we drastically reduce our standard of living. Our predicament is analogous to that of any person living beyond his means, who must grow poorer unless he generates more wealth. The plot is familiar: as creditors realize that he is unlikely to be able to repay, his IOUs begin to decline in value, and new loans—if available at all—come only at exorbitant rates. To maintain present consumption he begins selling off the contents of his house, including family heirlooms, and finally the house itself—which he thereupon rents from the new owners until he has no money left with which to pay the rent. So too with America; our failure to invest in future productivity is now reflected in a declining dollar, rising interest rates and the steady sale to foreigners of shares in our companies and of our prime real estate (47 percent of the commercial property in downtown Los Angeles is now in foreign hands, for example). Trying to offset our trade imbalance by selling off our assets makes as much sense as selling the house to help pay future rent.

Most of the panaceas now being offered by politicians and economists provide alternative means of growing poorer—by, for example, allowing the dollar to continue to fall, cutting wages, reducing environmental and safety regulations, slashing public spending, even engineering a recession. While these strategies impose the burden of becoming poorer on different groups of citizens over slightly different periods of time, their overall effects are much the same. There is no secret to becoming poorer. Even if we did nothing, the becoming-poorer strategy would occur automatically as the dollar continued to slide. To repeat: the *only* becoming-richer strategy is to invest in our future productivity.

The current obsession with the federal budget deficit obscures an important point about the nature and purpose of productive investments. Popular wisdom holds that government expenditure "crowds out" private investment. But the reverse may now be closer to the truth.[1] A significant portion of the investments undertaken by American corporations in recent years has been unrelated to the task of improving

[1] See David Aschauer, *Is the Public Capital Stock Too Low?*, Chicago: Federal Reserve Bank, October 1987.

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American competitiveness, while many of the most important types of productive investment can be undertaken only by the public sector.

Even as America's trade deficit has widened, American-owned corporations have continued to maintain their competitiveness by going overseas. Recent studies reveal that, while the percentage of world markets held by American corporations *exporting from the United States* has steadily declined during the last quarter-century, such declines have been offset by the gains of American corporations *exporting from other nations*. Economists Robert E. Lipsey and Irving B. Kravis have calculated that American multinational corporations accounted for over 17 percent of world exports in 1966, and their share has remained about the same since then. By the 1980s, almost half of the total exports of American multinational corporations came from their production facilities outside the United States, up from one-third or so 25 years earlier.[2]

The trend is not limited to giant multinationals. According to one recent study by McKinsey & Company, America's most profitable mid-sized companies expanded their overseas production at an annual rate of 20 percent between 1981 and 1986—significantly faster than less profitable companies of similar size.[3]

Thus in 1985 (the most recent year for which such data are available), American-owned corporations sold the Japanese almost $54-billion worth of products they had made in Japan—a sum greater than the American trade deficit with Japan that year. Japanese companies, meanwhile, sold us only $15 billion worth of goods that they made in the United States. IBM, for one, has 18,000 employees in Japan, producing all sorts of complex products whose sales, including exports from Japan, total about $6 billion a year. More than a third of Taiwan's notorious trade surplus with the United States is due to American corporations making things or buying things there, and selling them back in the United States. So too with Singapore, South Korea and Mexico. (Thus another reason why America's righteous indignation over these nations' trade imbalances is so misplaced.)

As the dollar declines, some American corporations are

[2] *The Competitive Performance of the United States*, Cambridge (Mass.): National Bureau of Economic Research, No. 659, 1985.

[3] *Winning in the World Market*, New York: American Business Conference, November 1987.

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coming back to America, and some foreign-owned corporations are joining them. Toshiba soon will be exporting to Japan microwave ovens and television sets made in its Tennessee plant, for example. But to the extent such corporations are being drawn to the United States by the relatively low costs of production here associated with a low dollar, their new investments in America are unlikely to be of a sort that will greatly enhance the value of what Americans contribute to the world economy. They are more likely to be in plant and equipment tailored to relatively low-skilled labor. Should the dollar hit sufficiently low depths, America may eventually become an attractive place to make things now produced in Southeast Asia and Latin America. But under these circumstances the real incomes of Americans—adding no more value to globally available plant and equipment than is added by any other low-skilled workers around the globe—would be very low indeed.

Indeed the only factors of production that are relatively immobile internationally, and thus upon which depends uniquely the value that the nation adds to world commerce, are the skills of our citizens and their capacities to work together. To a significant extent, such assets represent returns on public investments—in education, training and retraining, research and development, and in all the systems for transporting our citizens and communicating among them—which comprise the nation's infrastructure. We do not commonly think of these sorts of expenditures as investments—the federal budget fails to distinguish capital expenditures, and the national income accounts treat all government expenditures as consumption—but they dramatically affect our future capacity to produce.

These public investments have either declined during the 1980s or, at best, remained at about the same level. Government spending on commercial research and development has declined 95 percent from its level two decades ago. (Even when added to private-sector research and development, the total is still less than two percent of GNP, lower than comparable research and development expenditures in any other advanced industrial nation.) Government spending to upgrade and expand the nation's infrastructure dropped from 2.3 percent of GNP two decades ago to 0.4 percent in the 1980s. Per pupil expenditures on public elementary and secondary education have shown no gain in real terms; as a percent of GNP they have declined—and this during an era in which demands on

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public education have significantly increased, due to the growing phenomena of broken homes, unwed mothers and a rising population of poor. The federal government has retreated from the field of public education, leaving states and localities—many of them severely handicapped by low tax bases—with almost the entire job. Not surprisingly, an estimated 20 percent of American 18-year-olds are now functionally illiterate; one-quarter of today's high school students drop out before graduation. This is not the sort of population likely to generate high productivity in future years.

We must do several things to reverse the trend. First, we must gradually scale back aggregate consumption by, for example, spurring the growth of personal savings through expanded Individual Retirement Accounts and Keogh plans, hobbling hostile takeovers and leveraged buyouts, and taxing more of Social Security benefits. Consumption might also be limited by reducing farm supports, jettisoning weapons projects that are of low priority or fail to perform as planned, and taxing consumption directly—through, for example, a progressive tax on a family's net spending.

But this is only half the agenda. We should simultaneously attend to the investment side of the ledger by, for example, inducing more private-sector spending on plant and equipment in America (restoring the investment tax credit and accelerating depreciation on investments made in the United States), and increasing government spending for education, retraining, child nutrition, research and development, and infrastructure. These investment strategies may make it more difficult to reduce the federal budget deficit in the short term, but they are more important to our long-term economic health than any immediate fix. To focus singularly on reducing the federal budget deficit distracts us from this more fundamental agenda, which long predates Black Monday.

An additional aspect of our investment strategy should be to take the nation's research and development efforts out from under the Pentagon and its sister agencies, and turn them over to civilian agencies whose explicit goal is to spur the nation's commercial competitiveness. As has been noted, we already have a bold industrial policy for high technology, but it is run out of the Defense Department. There are commercial spin-offs of course, but because the Pentagon's needs are quite different from what consumers need at a price they are willing to pay, the spin-offs are relatively few and far between. And

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defense projects are so enshrouded in secrecy that commercial entrepreneurs often cannot take advantage of the discoveries even if they want to. It is time we acknowledged our high-technology industrial policy—and, by implication, the legitimacy of other nations' similar programs—but undertook ours in a far more efficient and direct manner.

Reality can be painful. Denial, escapism and self-righteous indignation toward others are common defenses against such pain, no less for a nation than an individual. But reality can become progressively more painful the longer it is avoided. Our immediate responsibilities in the coming year are to accept the truth about ourselves—that we are falling behind in our collective capacities to add value to the world economy, and that we must invest in one another to regain our stride—and to elect a president capable of helping us address the truth.

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W. Michael Blumenthal

THE WORLD ECONOMY AND TECHNOLOGICAL CHANGE

The years since the mid-1970s have been an unusual and disquieting period. Even before the events of last October 19 there was a growing sense that something was not quite right in America's economic life. The system appears no longer to be working as it should.

On economic matters, we seem to be governing ourselves less adequately than at any time since World War II; sometimes we seem to be confronted by factors and forces that we cannot quite understand, let alone predict or correct. We find ourselves more and more in an environment of unaccustomed economic uncertainty and instability, both at home and abroad, and with no real consensus on what is happening, what is causing it, or what should be done next.

In the postwar period we often confronted severe economic challenges at home and abroad, and we met them—not always perfectly, but certainly quite adequately and, in fact, rather well. Our domestic economic policies enjoyed a broad degree of support and met our needs. We created new international institutions and, on balance, they did the job. The depth of our problems was not an impediment to effective economic management and positive progress.

Can there be any doubt that we are not presently tackling the problems of the 1980s with equal understanding, imagination and success? Look first at our domestic scene:

—We are burdened with a federal budget deficit of unprecedented proportions, year in and year out, even in times of relatively satisfactory employment and growth. There is broad agreement that the risks are great, but not on much else. The nation with the world's largest and most sophisticated economy has so far been incapable of finding a way out.

W. Michael Blumenthal is Chairman and Chief Executive Officer of the Unisys Corporation, and served as Secretary of the Treasury from 1977 to 1979. This article is drawn from the Elihu Root Lectures delivered to the Council on Foreign Relations in November-December 1987.

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—We are running huge deficits in trade and current accounts which stubbornly fail to dissolve, even two years after our currency has been devalued relative to the world's other principal currencies by more than 40 percent. Most predictions as to the timing of any real improvement have so far been wrong—much to the consternation of the experts, who can no longer adequately explain exactly what is going on, let alone predict when and by how much the numbers will change.

—We are the richest nation on earth, yet we are now also the world's largest debtor. At the current rate we will soon owe more than all of the rest of the world's debtors combined. There has long been agreement that this state of affairs cannot last, yet it has—and no one can be sure exactly what will happen next.

—We have an unstable currency and cannot quite decide whether to support it or not. When we have tried, the effort has generally failed or at best only brought temporary respite. We have worried, and rightly so, about the possibility of a dollar "free-fall" and its longer-run political as well as economic implications.

—We have experienced two serious energy crises, providing clear evidence of our unhealthy dependence on inherently unreliable external sources of energy and of the importance to economize and increase the efficiency of energy use. Yet today we have largely abandoned even the pretense of a national energy policy. In spite of recent historical experience, we cannot even agree whether one is needed at all.

—We have the lowest savings rate of any developed country in the world and do not understand why, though we recognize the urgent need to save more and to reinvest to improve our global competitiveness. But since we fail to understand why we do not save more, we are unable to agree on how to change our domestic policies to promote our critical investment needs from within.

—In the midst of general prosperity and growth, amid a national binge of borrowing and consumption, we tolerate year after year grave pockets of poverty, distress and decay in this land. The consequences of these structural imbalances are egregious for our young, for our educational system, for the fabric of our social life. We know all this,

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but we cannot devise effective programs to combat these national scourges, and the problem steadily worsens.

—Lastly, of course, we are now caught up in unprecedented securities market uncertainties, with excessive, sometimes violent, up and down swings which threaten the stability of the system. And again, no one quite knows what needs to be done.

I do not believe that *all* has gone awry, that *no* positive economic decisions have been made. That clearly is not the case. But the list of serious problems is long, we understand them less well than we should, and seem less able to come to grips with them than in earlier times. The result has been a growing sense of concern and frustration at large amid a stagnation of official thinking and positive action, and much empty rhetoric, wishful thinking and general drift.

We are not alone. Japan, for example, is also faced with new factors and forces which policymakers have yet to master. The past mix of domestic demand management and export promotion no longer makes sense. The yen is rising to historical highs and competition from newly industrialized countries is displacing Japanese jobs and "hollowing out" the industrial base. Meanwhile, Japanese structural surpluses on trade and current accounts have remained largely impervious to efforts to create better balance. In some European countries unemployment has risen to postwar highs, and the European Economic Community faces a mounting crisis with agricultural surpluses which threaten the fundamental structure of the Community system.

At the same time, such serious world issues as the debt of the Third World and rising protectionism linger, with few new ideas and no decisive action in sight.

II

What is the cause of all this uncertainty and change? Why the difficulty in understanding what is under way?

No single reason adequately explains what has occurred. But I believe there is one circumstance which overshadows all else and has set the current period apart: unprecedented, deep and continual technological change. In the 1970s and 1980s extraordinarily rapid technological change has thrust upon us new and as yet unresolved problems of governance in the national and international spheres.

There appears to be a fundamental lag between the current

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rate of technological change and the rate of adjustment to these changes among decision-makers. Technology that evolves much more rapidly than the body politic can absorb creates strains and stresses which lead to dislocations, instabilities and paralysis of action—and sometimes perverse responses. This is what characterizes our situation today. The problem is further complicated because the private sector accepts technological change more rapidly than the government.

Today's situation differs in one fundamental aspect from earlier periods of rapid technological change (e.g., during the invention of the steam engine or the telephone). The current period of revolutionary change is occurring in a much more interdependent world in which purely or largely national efforts to adapt to change have ceased to suffice. Furthermore, existing international institutions have been rendered obsolete by technological change, and the capacity for making international reforms is even less developed than that for making domestic reforms. In the absence of adequate institutions, progress on adjusting to the new technology is reduced to a slow crawl.

III

What is the new technology?

The range of significant recent technological changes is large and diverse. But one development, I believe, lies at the heart of many of the changed circumstances with which we must come to terms.

We need to understand, and master, the full implications of the accelerating advances in microelectronics, which began with the invention of transistors at Bell Laboratories in 1947 and were continued a decade later by the development of integrated circuits—the ability to group a large number of transistors on a single silicon chip.

Through miniaturization it has been possible, on the average, to double the number of transistors on one tiny chip each year since—with dramatic implications for performance and, above all, for cost. As a result one random-access memory chip can today accommodate as many as one million bits, which is 125,000 separate characters of information, on a device no bigger than a fingernail and at a tiny fraction of the earlier cost. The scientists at Unisys assure me, based on work now in progress in the laboratories, that we will soon be able to place four times as many characters on that same small device.

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The results have been spectacular. In 1961 we achieved the ability to handle as many as 34,000 arithmetic operations per second in one computer; only 20 years later, we learned to handle as many as 800 million arithmetic operations per second in a single computer. By the end of this decade that number will have been far surpassed.

Another extraordinary development of the 1960s, the microprocessor, is now affecting our lives in even more startling and revolutionary ways. For this breakthrough now enables us to combine not merely within one computer, but on a single small chip, a vast array of complex features and functions for both memory and logic processes. A single standard microprocessor can handle as many as 20 million individual and varied instructions per second. An annual rate of increase of 20 percent in that capability is likely for years to come. This revolution with regard to size, speed and complexity has equally revolutionized cost, which has dropped by over 90 percent in the last two decades and continues to decline steadily year after year, albeit now at a decreasing rate.

The effect on an ever increasing range of human endeavors is as profound as it is pervasive. And what makes it particularly powerful is that all this has occurred in conjunction with far-reaching changes in other technologies as well. The most important of these changes have been in jet aviation, space satellites, biotechnology and, especially, the technology of new materials, particularly ceramics and glass fibers.

The impact on communication and transportation has had special meaning. Our capability to establish virtually instantaneous worldwide electronic links, combined with the technology of television satellites and jet transportation, has revolutionized how we live, where we go and what we do.

Technological breakthroughs invade every aspect of our lives. Just four decades ago the world had just one computer, the ENIAC, built at the University of Pennsylvania in 1946. It weighed 30 tons, utilized 18,000 vacuum tubes, stood two stories high and covered 15,000 square feet. It cost many millions.

Ten years later, in 1956, there were but 600 computers in the entire United States. Two decades ago there were 30,000. In 1976 there were about half a million computers in use across this land. Today there are several million, and we now estimate that by the end of this century half of all the households in the United States will have at least one free-standing computer.

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Within less than three decades of the birth of the computer age, the industry was producing, for a few hundred dollars, a microcomputer that was 20 times faster than the ENIAC, ten times more reliable, required 3,600 times less power and took up 300,000 times less space! Today, untold numbers of microprocessors perform a myriad of complex tasks in factories, offices and homes.

The results? In the seventeenth century it took Johannes Kepler four years to calculate the orbit of Mars. Today a microprocessor can do it in four seconds flat.

In factories, parts are conceived, designed and produced at one-hundredth of their old cost and in a fraction of the time. Robots with preprogrammed microchip brains do complex routines requiring superhuman strength and handle the chores that are particularly dangerous or dull. They can hear, see and touch. In automobiles, a single throwaway microprocessor controls ignition, fuel, suspension and brakes, and almost everything else that makes the car go.

Information has become the key to modern economic activity—a basic resource as important today as capital, land and labor have been in the past. Information is not and cannot any longer be geographically limited or confined. The new technology moves it instantaneously across national boundaries, anywhere and at any time. We are, in fact, not far from the point where the entire store of human knowledge is available worldwide and where new developments and changes are communicated in split seconds to anyone, at any place on the globe.

The combining of electronics with biotechnology and the application of engineering methods to the study of live organisms are resulting in equally stunning new possibilities for mankind: in agriculture, we have raised productivity substantially and have grown plant species in new environments; in genetics, we are learning to reprogram and create new proteins nonexistent in nature, and can now utilize these techniques to unlock the genetic code with dramatic implications for world population growth, medicine and health.

Medical science has leapt ahead. CAT scanners provide composite images with resolution beyond the capability of conventional X-ray machines. Expert systems can suggest diagnoses from a menu of thousands of symptoms and hundreds of diseases.

The new technology has fundamentally altered what we produce and how we do it, what we trade, how we communi-

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cate, and how quickly and widely information can be passed along, who travels and by what means, how we educate our children and care for the sick, how we compose music and write books. So little has remained the same that we can no longer hope to govern our affairs as before. Because of the microchip, mankind can now accumulate, store, manipulate, access and utilize information, data and knowledge in vastly more efficient ways and in volumes exponentially greater than only a few short years ago. Ten billion bits of information can be put on a single video disc no larger than a phonograph record. The entire contents of the Library of Congress can be stored in a cabinet hardly bigger than a medium-sized medicine chest.

A simple little experience impressed upon me the scale of these changes more deeply than anything else. Not long ago, far from high-tech civilization in the interior of China's Anhui province, a local farmer showed me his new television set on which he was just then watching excerpts of the ABC evening news, featuring Sam Donaldson, firing pointed questions at the president as he boarded his weekend helicopter—but of course getting not much more than a cheerful grin and a wave in return, even in dubbed Chinese. The farmer thought it was great and I have not forgotten it since. When I was growing up in China, that illiterate peasant's horizon and knowledge about the outside world was limited by the distance he could walk or, if he had one, peddle his bicycle. I doubt that he would have ever been to the provincial capital, Hefei, not all that many kilometers away.

In sum, the world is not what it was only a few short years ago.

IV

World industry and commerce are being reshaped by technological change in many other ways, as are the national and international problems to which new technologies give rise.

We are witnessing the development of entirely new materials, and we can now endow old ones with changed and vastly enhanced new properties to reduce cost, improve strength, add flexibility and so forth.

Older materials like copper, tin, aluminum, even steel are increasingly faced with new competition and the threat of obsolescence, with potentially serious impact on the economies

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of countries such as Bolivia, Chile, Peru and others in Southeast Asia and Africa.

Secondly, as noted previously, the impact of technology on agriculture is probably as profound as it is in industry. Biotechnology and biogenetics are creating tremendous opportunities for mankind but also present us with new challenges and problems. Genetic engineering promises to revolutionize agriculture in the years to come. Genetically engineered seed and the development of highly drought- and herbicide-resistant species are likely to lead to rapid and continuing improvements in productivity and total output, eventually making traditional food importers largely self-sufficient and eliminating, or at least sharply restricting, many markets for temperate-zone agricultural goods. Further advances in productivity enhancement, crop varieties and animal breeding techniques promise to continue these shifts in the balance of world demand and supply.

Technological change is also altering world trade. In fact, for one who spent four long years in arduous negotiations to lower tariff barriers and increase world trade, it is a sobering thought that technological change appears to be having a far greater impact on the nature and volume of international commerce than all the trade negotiations since the 1948 establishment of the General Agreement on Tariffs and Trade (GATT) combined.

Service trade was not a problem in the Kennedy Round twenty years ago. Today, it is *the* issue. In an advanced country such as the United States, 75 percent of the work force is now employed in the service sector overall, and two-thirds of that number are connected in one way or another with information or with the knowledge industry itself. The estimate is that by the year 2000 only 15 percent of all employment in the United States will be devoted to the manufacture of goods.

Increasingly, then, a country's comparative advantage lies in its ability to utilize effectively the new information technology, in the speed of its absorption into the productive process, and in the relative efficiency with which it is applied. Less and less it is the other factor endowments, the availability of raw materials or the cost of labor, that determines which country has the advantage and which has the lowest total cost.

As the new technology becomes an important input of the traditional production process, fundamental changes in the cost structure occur. As recently as a decade ago, for example,

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many electronic assembly operations were being shifted out of the United States, first to Japan and subsequently to Hong Kong, South Korea or Taiwan.

Now a reverse move may be taking place. Labor cost differentials between us and the Far East may, quite apart from exchange rates, become less important in determining the location of production or plant. For it is now high technology applied to manufacturing, including robots and computer modeling, that permits the introduction of "just in time" delivery of inputs and high levels of automation and reduces or totally offsets the advantages of low labor costs. At Unisys, we can assemble computer terminals in the United States at a cost roughly equivalent to the Far East, even though wage rates differ substantially between our plant in Flemington, New Jersey, and those in South Korea or Taiwan.

For a company like ours, the location of manufacturing and service facilities for our worldwide operations can now be determined more by market and customer considerations than proximity to needed raw materials or areas with low labor rates. Increasingly, we can ship products by jet and make delivery from anywhere to any place on the globe in 48 hours or less.

My own view is that not only the interrelationships but also the volume of world trade will as a consequence continue to grow. Some trade flows have obviously become obsolete, and there is a debate whether these are now or soon will become so large as to offset the new opportunities being opened up. Intuitively, I do not believe that to be so, but it remains to be seen.

This enhanced interdependence is changing trade in another important way: the national origin of a product is becoming more and more difficult to define. As a smaller number of large players are able to organize their operations on a worldwide scale, their products cease to be truly American or German or Japanese. Parts, components, subsystems, products and services are intermingled and exchanged in ways that render debates as to the final product's national origin not much to the point.

In the financial marketplace it is clear that technology, the ability to develop and gain access to vast data bases, to handle complex computing with lightning speed, and to communicate instantaneously, has had a profound impact in at least four critically important ways. First, information is now universally

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available, in real time, simultaneously, in every financial center of the world. Second, technology has tied all the principal countries and world financial and banking centers together into one integrated network. Few countries or parts of the world can any longer remain insulated from financial shocks and changes, wherever they may occur. Third, technology has made possible the establishment of a new, comprehensive system and highly efficient world market to match lenders and borrowers, to pool resources and share risk on an international scale, without regard to national boundaries. Finally, technology has engendered a vast amount of innovation or new "products," mostly to hedge against changes in interest rates or exchange rates.

Technology has made the system more efficient. But new systemic and policy problems have also been raised, as the recent unstable performance of the securities markets clearly showed. The problem does not lie here. It lies rather in the public sector and in our political and institutional framework, where adaptation to technological change is slow and where obsolete institutions and outmoded rules create the uncertainty and tensions that have adversely affected the quality of macroeconomic management in our newly pluralistic world.

V

How well have governments, severally and jointly, adjusted their thinking and practices to modern technological trends? How much progress has been made in developing new practices and approaches that take account of what has changed?

The record is uneven at best. In most countries monetary policy, for example, still reflects the illusion that the pursuit of an independent national policy remains an effective and appropriate means of setting interest rates, controlling inflation and influencing the overall level of economic growth. Individual countries often still adhere to the obsolete notion that monetary policy can be effectively managed nationally, and that not only the sovereign right but also the power of each country to make its own decisions and make them stick remain intact. Politicians, central banks and finance ministries too often still hold to the erroneous assumption that the national currency can be protected by unilateral intervention in the foreign exchange markets.

To an important degree, these concepts are out of date. Purely national action on domestic policy and exchange rates

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has been rendered essentially obsolete by the growth of a true world capital market of gargantuan size and many interconnections—the vast range of financial innovation with its array of new money and money-like instruments crisscrossing through the world's computer and telecommunications networks, without regard to borders, as fast as the speed of light. The very question of what is the national money supply is no longer easy to answer. Determining how to control the supply nationally becomes equally difficult. The rules of the game have changed fundamentally.

The traditional monetary techniques of influencing the level of economic activity, in any case, no longer work quite as before. We lack a clear idea of the real impact of financial innovation, and whether the myriad techniques to hedge risks have not taken much of the force out of traditional national or international policy moves. This is because technology has dramatically lowered transaction costs, and because the variety and substitutability of instruments available to market players has greatly increased. It is doubtful, therefore, whether the old techniques of influencing what the players do can have much value if they remain unchanged. Yet that is still our situation today.

Controls and regulations that remain purely national in scope lose some of their effect unless they are at least compatible with the larger international context. It is not that national rules and policies are obsolete or no longer needed. On the contrary, each government has an even greater responsibility than before to pursue sound economic policies at home. But national measures cannot work unless close attention is paid to what is being done elsewhere. Failure to appreciate the interdependencies, and the continuing attempts to apply purely national methods to solve many of today's problems, are important reasons why our separate economies no longer respond to traditional government measures as before, and why the course of economic events has become so much harder to understand and predict.

Much needs to be done. As deregulation in individual countries proceeds—itself a general worldwide response to technological change—we require much deeper consultation and agreement on what kind of new rules should pertain in a much broader range of affairs. If the market is to function smoothly, eventually there will have to be agreement on more key standards for international banking and finance, including account-

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ing rules and the national treatment to be accorded institutions established on foreign soil.

But international cooperation regarding banking rules and regulations, as far as it goes, is still the exception rather than the rule. There is as yet little evidence that governments are facing up to the need for a greater convergence of other national security market rules, where the need is equally great. That certainly remains a necessary next step. After all, "Black Monday" showed us, more graphically than we might have liked, how closely linked these markets have become and how directly events in one place are mirrored elsewhere.

If there is one world market for capital and money then there is, or soon will be, essentially one world market for securities as well. You can buy Unisys stock somewhere in the world at virtually any time of the day. So the logic for the coordination of rules in one area is equally persuasive across the board.

The inescapable conclusion is that technology requires that many traditionally national policies be rethought. In some cases, strictly national rules lose much of their meaning. In others, at least the thrust of the rules requires change.

Antitrust legislation at once comes to mind. Already there has been a kind of tentative, albeit reluctant, recognition that technology has made obsolete the traditional definition of the market and that some old restrictions no longer make sense. One such example here in the United States is the government's stamp of approval for the creation of a Microelectronics Computer Consortium, originally under Admiral Bobby Inman. Allowing a group of strong U.S. competitors in the information industry to pool their resources and collaborate on research would not have been acceptable in earlier days. But it makes sense under the different conditions of today.

Of course, there is no area of national economic decision-making where technology has made the interdependencies more evident than in fiscal policy. Capital movements have become a powerful force. Trade has become so much more important for all: even in the United States trade has more than doubled in relation to GNP. Flexible exchange rates now transmit the effects of action or inaction in one country to the others much more rapidly than before—on exports, on the price level as import prices change, and on the level of economic activity overall.

That is why the budget in Washington or in Tokyo or Bonn

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is now a deeply international issue for all: the more so as gridlock in one place can lead to capital movements and exchange rate changes, which in turn influence trade flows and give rise to protectionist urges elsewhere.

We must realize our structural interdependencies and adjust institutions to deal with a whole range of issues which simply did not exist at an earlier time, or at least not in their present form, and which can now significantly influence the course of economic affairs and international relations: energy, the environment, transnational investments, transborder data flows and trade problems in services immediately come to mind. Even old problems need to be viewed in a new light. Macro policies, agriculture, East-West trade, relations with the less developed countries (LDCs)—all these raise new problems and require different interaction than before. But if governments have trouble changing their ways at home, they find it even more difficult in the international sphere.

There is not even enough agreement as yet on how the economic world works. The Germans think fighting inflation must always come first. The Japanese cling to trade and exports as the number-one priority, and the French believe that reform of the international monetary system stands at the top of the list. The American emphasis on the need to come to grips with the impact of technology on services is viewed with suspicion by all. Under these circumstances, managing international economic policies in the light of a new set of technological facts of life, so that the world as a whole comes closer to optimizing the collective welfare, remains a far distant goal.

VI

The position of the GATT on trade matters is perhaps the best case in point. It is in this area that we emerged from World War II with possibly the earliest and clearest insight into the limits of sovereign national power, and the best understanding that in trade matters, at least, unilateral action by one country does no one much good.

Although the GATT signatories failed to implement the more ambitious International Trade Organization planned at Havana in 1947–48, the GATT as it did evolve proved an extraordinary success for the first quarter-century of its existence. Successive negotiations led to the dismantling of a large part of industrial tariffs throughout the developed world. The resulting huge increase in world trade was a major factor in the

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rapid postwar recovery and growth, and helped developed and developing countries alike.

I recall the cynical prediction by one of the most negative European delegates during the Kennedy Round, the most successful GATT negotiations, that the demise of direct tariffs would make trade problems not better but much worse because nations would now resort to other more insidious protective means.

An objective assessment of trade developments in the 1970s and 1980s, and of the GATT's declining ability to achieve any far-reaching positive new results, might lead to the conclusion that my cynical friend was not entirely wrong. But the principal explanation for why new forms of protectionism have arisen and why the problems have become much more difficult to resolve lies elsewhere. The major factor is that technology has created a fundamentally different world from that which prevailed when the Kennedy Round was held: neither the member governments nor the GATT have as yet fully adjusted their thinking and their practices to those differences and to what they mean.

Services are now an important issue in international trade. Factors of production are not as fixed as before. Knowledge flows rapidly across the borders of developed countries and LDCs alike; new competitors come up fast. Technology has affected agricultural output and productivity and created new substitutes for primary goods. Above all, floating exchange rates and sophisticated world electronic networks have made obsolete the fixed tariff and have altered international economic relations in ways no one could have foreseen.

The rise of the multinationals and their capacity to take advantage of technology without regard to frontiers, the rapid dissemination of technology and its effect on newly industrialized countries like Brazil, Mexico and Taiwan—all this has changed the trade problems the world must now face.

But the GATT has remained as it was, and the rules no longer cover a large portion of what is now relevant in world trade. The result has been a slowing of progress, a trend more toward cartelization than cooperation, and more frequent resort to so-called administrative intervention and all manner of other new devices to protect domestic producers from the effects of competition and change.

As currency values change, as the level of frustration rises, the pressure for restrictive measures increases as well. Thus

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twice as many protectionist proposals now find their way into the congressional hopper as was the case a decade ago, and positive moves in the trade field become infinitely more difficult to achieve.

Yet the case for cooperation in trade, for limiting sovereign national power through agreement on rules of conduct, for adjudication of disputes and for the reduction of national protection remains no less persuasive today than it was two decades ago. The rising tide still lifts all the boats.

There has been some progress. The Tokyo Round agreement to deal with subsidies, procurement, import licensing and national standards was a good step forward, and in the current Uruguay Round there is encouraging evidence of a willingness finally to begin dealing with the service issue as well. Bilaterally, perhaps the most significant advance in trade has been the U.S.-Canadian agreement to remove virtually all tariff and trade barriers over the next five to ten years. That is a really important move forward which deserves the fullest support.

The basic problem, though, remains. It is that we need new trade rules to fit our new needs and a greater willingness by all countries to come to terms with the way in which technology has altered what occurs in today's trading world.

VII

There are other advances and some sound initiatives to help us come to grips with the needs of our pluralistic economic world.

Some progress has been made on improving consultation and international cooperation through the institutionalization of the annual Group of Seven summits, since the first one at Rambouillet in 1974, and in the meetings of the smaller groups—the regular meetings of the finance ministers and central bankers of the principal countries.

Summitry has been the subject of considerable debate. Part of the current conventional wisdom is that the process has ceased to be of much use—if it ever was. The summits are criticized as annual rituals long on media hype and little else. Some think that nothing definitive has ever been decided and the whole effort is largely a waste of time. As a participant in three economic summits, I do not share these reservations. In my view, the summits are only a beginning, but a good beginning nevertheless, of a necessary evolutionary process from which we must learn and which we would do well to deepen

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and to expand. At a minimum, summitry over the last decade is concrete evidence of a growing recognition among the principal countries that their economies are interlinked and that better understanding and common approaches are an important, if not an essential, prerequisite for the prosperity of all.

Summits are an important means of exposing presidents and prime ministers to the realities of our world, a valuable learning experience of how the viewpoints of key countries on major issues mesh or diverge and of the limits to strictly national action on economic matters. The meetings also have the important advantage of bringing home to congresses, parliaments and the public the connection of national economic problems to the world economy as a whole. They can serve as a subtle and important barrier to wrongheaded and counterproductive unilateral moves. The very fact that a summit meeting is in the offing can and does at times act as a counter to ever-present pressures to go it alone, particularly when it comes to protectionist trade solutions.

Summits are the one most visible opportunity for bringing together for discussion the whole range of national and international policies and concerns. My view is that the inevitability of continuing technological advances in our pluralistic world argues strongly not for abandoning summitry, but rather for striving to improve and to build on the process as best we can.

Obviously, an annual two-day meeting of political leaders is at best a highly limited affair. The experience of the last decade reveals its more obvious inadequacies and why, even with improvements, there are a lot of other things that will have to be done. For example, it seems to me that the experience of the "sherpas," who help set the agenda for summits and do much of the preparatory work, and of the Group of Seven ministers should be utilized and built upon for deepened and expanded contacts.

The sum total of our common problems needs to remain under constant review, perhaps by establishing more permanent machinery for discussion and, where possible, resolution of the major matters on which international understandings need to be reached.

VIII

If my basic thesis is valid that rapid, revolutionary technological change has profoundly and permanently altered the domestic and world economic scene, where do we go from here?

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How can we find ways to adapt national and international decision-making? Are there practical avenues for a positive and constructive evolution toward more suitable responses to today's needs?

The logic of the electronics revolution leads to a first conclusion which is basic to everything else, though it is not yet fully understood and accepted. Simply stated, it is that technology is rapidly making the basic notion of national sovereignty obsolete in many areas of economic affairs—at least for some of the major nations of the world, and ultimately for most:

—There is now one world capital market. How then can any major nation hope to conduct a truly effective national monetary policy all on its own?

—Exchange rates quickly transmit the effects of key tax, spending and budget decisions from one major country to another. How then can there be a truly independent national fiscal policy?

—Factors of production are less fixed and knowledge flows freely across borders. How then can strictly national rules and regulations remain effective if they are out of step with the rest of the world?

—And if technology can rapidly override the effects, how can national import restrictions and protectionism possibly still achieve their stated aims?

The conclusion is inescapable that technology has created a world no longer effectively composed of individual national economic entities. Thus, if we continue to act as if nothing has changed, our persistence in applying strictly national policies is bound to prove frustrating, and often counterproductive as well.

The second conclusion strikes me as being as obvious as the first. Regardless of where the technology moves, nation-states will continue to exist for a long time to come, and more important, will behave as if they can continue to control key economic events a great deal more effectively than may actually be the case.

There are several reasons for this. The practice has been deeply ingrained over the centuries and will not easily give way; as yet there is no ready, practical alternative to continuing national action much as in the past; even if national measures on key issues can no longer work, they can still *appear* to do so, and thus influence the behavior of markets and managers.

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It is an interesting paradox, but not one that obviates the validity of the underlying need for change.

My third conclusion is that we need to give greater attention to the issues and implications raised by the deep impact of technological change on our lives, on what we do and how it is done. What is missing is a better and more comprehensive analysis and an integrated view of the new issues underlying our current economic problems in light of technological change.

Yet even with more understanding of the forces at work, it may still be that the sight of the gallows will have to become clearer before we can make real progress toward a constructive response. Perhaps we need more failures and crises before real changes occur. One hopes not, but history would suggest the likelihood that it will turn out to be so.

Who will show the way?

My answer to that question is unequivocal and clear. No real progress is likely or possible without the leadership of the United States. We are no longer the dominating world economic power, but we are still the largest and most powerful nation. Ours is the world's largest single market and our currency remains at the center of international finance. We remain the political and strategic leader of the West. And we have the greatest military strength, with worldwide interests and commitments that span the globe. What happens in the United States affects world economic events profoundly. We were the principal architect of the existing framework created in the wake of the Second World War, and none of these international economic institutions can evolve without our active initiative and support.

We are expected to lead, and it is in our interest that we make the effort to do so. That is as true today as it was 40 years ago, and the importance of doing so, I would say, is now no less. In fact, one of the great problems of the recent past is that we have not done so, and that our domestic economic policies, quite apart from their impact on us, have shown insufficient evidence of an appreciation of their impact on the rest of the world.

There is then a further conclusion which few will question or doubt. An indispensable prerequisite for leadership must be that our own domestic economic affairs are first put back into tolerable shape. We cannot suggest solutions to others if we cannot ourselves apply the right ones at home. We cannot be

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the world's largest debtor and the world's economic leader at the same time. No improved collaboration on monetary and fiscal matters is possible without a more assured prospect for better balance in our domestic budgetary accounts. No fundamental solutions for solving the LDC debt problem are really possible if our own debt is not brought under control. And no effective steps for tackling the new issues in world trade can be taken if we continue to run $150-billion trade deficits and hope that a declining dollar alone will absolve us from the need to make the painful domestic structural reforms.

But leadership toward what? What kind of program would make sense? That is the central and most difficult question of all.

IX

We need to define a bold and comprehensive new philosophical underpinning for the management of domestic and international economic affairs, a kind of new economic Weltanschauung that explicitly recognizes the new problems but also the enormous opportunities for mankind which technology has opened up. What I have in mind is a general framework for the gradual restructuring of domestic and international economic relations that corresponds more closely to the technological realities of our day. The process no doubt will be gradual and evolutionary, but the underlying principles require clear definition from the start.

The effort to define a new strategy must be based, first, on realism, on a willingness to think about the world as it is and not as it once was, and second, on a recognition that U.S. hegemony in economic affairs has come to an end; the triangular power bloc of the United States, Japan and the European Economic Community, and the three-currency grouping of the dollar, mark and yen has taken its place.

The third principle will be particularly difficult to put across, but strikes me as a prerequisite for intelligent progress on almost any front. We need to lead the way in redefining, for others and for ourselves, the meaning of "national interest" in broader terms than in the past. Implied here is the proposition that national interest now dictates for all a limiting of unilateral moves in economic affairs, and that for all the key actors it must encompass greater concern over the impact of major domestic measures on others. It implies acceptance of the principle of common responsibility for internationally compat-

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ible solutions to domestic needs, and for the creation of and support for the institutions necessary to coordinate these efforts on a broader scale.

The fourth principle is a corollary of the third. It involves the commitment to renounce, or at least to limit wherever possible, those measures that are particularly incompatible with the expanded definition of what the true national interest now means. Protectionist policies immediately come to mind. The unwillingness to collaborate on environmental issues, it can be argued, is another case in point.

Fifth and finally, the principle of nonexclusivity, that is, the need to take account of the broader interdependencies of economic problems affecting the many, should also be recognized and understood. Technology will tie all of us together on this earth. And more than before, broad interrelationships will have to be taken into account, whether they concern the communist bloc or the wider range of LDCs, and whether they deal with currency problems or the connection between market access and economic aid.

X

Such a framework for dealing with economic problems, in light of the new interdependencies technology has wrought, can create the much-needed political impetus to adjust national as well as international practices and institutions to 21st-century needs. New initiatives can become more acceptable within such a framework if seen as part of a general new strategy to bring the benefits of technology to all in an interdependent world. We must recognize, however, that U.S. leadership along these lines requires long-overlooked changes in our domestic decision-making institutions and machinery.

The American president should have a single statutory chief economic officer to advise him on all domestic and international economic affairs. We should create a cabinet job for that, equal in importance and stature to that of the secretary of state.

All elements of economic affairs should be placed under this new secretary's charge, and his role should be fully analogous to that of the secretary of state in foreign affairs. A more formal, closer means for relating monetary to fiscal policies between the executive and the Federal Reserve is also an important need, and the congressional structure should evolve to mirror these executive branch reforms in a more rational

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way. Based on my own experience over the last 25 years, I can think of nothing that holds greater promise for improving the quality of economic governance in the United States than a reorganization of the way economic decisions are made in Washington.

On the international scene, the strategy should focus on the search for improved techniques to coordinate those decisions that affect the welfare of all in our pluralistic world. I am aware that there are those who point to the problems and failures of the past and question whether coordination is possible at all. My own view is that the record of the past holds as many instances of success as of failure and that, in any case, the reality of interdependence dictates that we continue to try to make coordination work.

We must be pragmatic in the means we choose to employ. The pooling of better, more consistent statistics and information would be a step forward. Sometimes merely consultative mechanisms, more or less formal, may suffice. Elsewhere, new institutions involving specific multilateral commitments by member nations will be needed. And we should not shy away from thinking about entirely new techniques and ideas, even if they may at first seem as revolutionary as the development of the microchip itself.

For the joint management of our world financial market, some bold new thinking is especially needed. Is a single world central bank as yet too visionary an idea? A case for it certainly could be made. Are there lesser steps that can more realistically be conceived? Should the chief currency countries have representatives present when their central banks consider key policy moves? Or are there other even less far-reaching formal coordination or consultation devices that might be tried? These are the kinds of initiatives, it seems to me, that now require our serious attention.

For better fiscal policy management and for coordination of the broader range of economic issues, expanding and strengthening the existing machinery provides the most practical opportunity for progress. A permanent secretariat doing substantive work for the Group of Seven governments between meetings and for the improved functioning and effectiveness of the periodic economic summits holds promise. And the new strategy could encompass initiatives toward expanded understandings on a whole list of international economic issues which technology has raised up, but on which no informal or formal

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means for cooperation or agreements as yet exist. Transnational investments and East-West trade immediately come to mind.

The point is simply this. Whether the issue is trade and the future of GATT, or the problem of LDC debt and development and its connection to North-South economic and political relationships as a whole; whether the concern is our common environment or the evolving economic scene within the Soviet bloc—in each case technology has created new imperatives which nations must learn to accept. We must do better in managing the new economic environment and the new interrelationships. In no major country can economic policies remain unaffected by the realities of technological change. No one can escape the conclusion that some issues now require the surrender of a greater degree of national sovereignty. It is a deeply political issue, both at home and abroad, but one with which all countries must come to grips.

Above all, a common strategy is needed to avoid the conflict which lack of attention to these problems would undoubtedly create, and to seize the opportunity for advancing the well-being of mankind which technological change has opened up.

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Marshall I. Goldman
Merle Goldman

SOVIET AND CHINESE ECONOMIC REFORM

When historians look back on the twentieth century, they will note that the first three-quarters of the century were marked by extreme and violent revolutions on both the right and the left. They may be even more intrigued, however, by the fact that in the last quarter of the century, the governments established by those revolutions shifted to considerably more moderate positions and they did so in a nonviolent manner.

The two most notable examples of this phenomenon are in China and the Soviet Union, where Deng Xiaoping and Mikhail Gorbachev are engaged in trying to turn their countries away from what has been called the Stalinist model, with its emphasis on heavy industry, centralized planning and authority, and political and cultural repression. There have been previous efforts to reform the Stalinist model, but what makes Deng and Gorbachev different is that they not only acknowledge the need to change, but seek to implement changes that challenge the vested interests of their own communist parties. Most of their colleagues, whether high officials or middle-level bureaucrats, seem willing to recognize the shortcomings of the existing system, but they oppose with all their being its reform—if the reform threatens their existing status.

What has made both leaders deviate so sharply from the path of their predecessors? Why at this time? What is their attitude toward each other's efforts? How do their efforts compare? And what are their chances of success?

II

To understand what both leaders must overcome, it is necessary to recollect what each found when he assumed power.

Marshall I. Goldman is Professor of Economics at Wellesley College, Associate Director of the Russian Research Center, Harvard University and author of *Gorbachev's Challenge: Economic Reform in the Age of High Technology*. Merle Goldman is Professor of Chinese History at Boston University and is completing a book on China's post-Mao democratic movement.

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In some ways their situations were similar. At the time of Deng's return to power at the Third Plenum of the 11th Central Committee of the Chinese Communist Party in December 1978, and Gorbachev's selection as general secretary of the Soviet Communist Party in March 1985, both were confronted with stagnant economies that were based on state ownership of the means of production, centralized planning and collectivization of agriculture. Each man led one-party states that emphasized democratic centralism, meaning that all decisions and administrative appointments flowed from the top down.

Using this Stalinist model, both countries had initially achieved rapid industrial growth, particularly in heavy industry. Expansion of the agricultural sector proved to be more of a problem. Over the years Soviet harvests did increase, but so did the costs of production. Moreover, because of inefficiencies and waste in production and distribution, even when the harvest increased, supplies were often inadequate, and formal and informal rationing was commonplace. In China the increase in population meant that in 1976 the per capita food intake was no higher than it had been in 1957.

Deng's and Gorbachev's predecessors had been so determined to speed economic growth that they periodically adopted emergency crash programs. Invariably, however, these elixirs caused extreme stress throughout both societies. Thus Mao's Great Leap Forward, from 1958 to 1960, disrupted the economy and intensified the bureaucratization of agriculture, and his subsequent Cultural Revolution (1966–76) ripped apart China's social fabric. Similarly, Stalin's collectivization, purges and emphasis on heavy industry crippled critical sectors of Soviet economy and society. These efforts to speed the process of modernization caused trauma and even loss of life that have encumbered later generations.

That they assumed power in the aftermath of a period of economic and political instability in China and stagnation in the Soviet Union made Deng's and Gorbachev's tasks all the more urgent. Moreover, both countries were surrounded by neighbors developing at much faster rates and providing their populations with higher standards of living. China awakened from the paralysis of the Cultural Revolution to find that its once poor cousins, Japan, South Korea and even Taiwan, had broken into the ranks of the economically advanced. More and more Chinese began to question whether the communist state

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they were building and their strict adherence to Marxism-Leninism-Maoism would make possible a better life for the masses. As Deng had boldly said, the color of the cat mattered less than whether or not it caught mice. This assertion in the Maoist era was revolutionary.

While the status of the Soviet economy relative to that of its neighbors in the West was not nearly as backward as China's compared to its East Asian neighbors, Gorbachev realized that it had failed in some areas and was inappropriate in others. Admittedly the Soviet Union was producing more steel, petroleum, gas and machine tools than any other country in the world, but the quality of most of its manufactured goods was far below world standards. Its harvests, which had once made large grain exports possible, now necessitated large imports, and its population was poorly served. Equally if not more important, the Soviet Union was having difficulty keeping up with the development of the new advanced technologies. In many cases the gap between the Soviet Union and the rest of the world was actually growing. In the age of high technology, which demands innovation, flexibility and rapid communication, China's and the Soviet Union's cumbersome bureaucratic centralization was counterproductive. Perhaps most important, there was increasing awareness of the gap between what their regimes had promised in improved livelihood and what they delivered.

While the impetus to reform in both societies came from a growing sense of inadequacy and malaise due to economic deterioration and ineffective leadership, there were some sharp differences. As long as Mao was alive, China was marked by convulsive upheavals: the Anti-Rightist Campaign of 1957–58, the Great Leap Forward and the Cultural Revolution. Stalin's rule was marked by periodic purges, but after his death in 1953 the political process, despite occasional disturbances, was relatively stable. In fact, after Brezhnev forced out Khrushchev in 1964, there was relatively little change in either Soviet policy or personnel.

In some ways the Brezhnev era was too stable. It might have made economic and political revitalization easier if Brezhnev had been more mercurial or if economic and political conditions had been more chaotic and closer to collapse. Conditions seemed to deteriorate in the last few years of Brezhnev's life, but not quite enough to generate a feeling of panic. Concern about the future became more noticeable in 1979 when the

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Soviet Union suffered the first of six consecutive poor harvests and began a drop in output in some key industries. This led to the reinstitution of rationing in over a dozen cities. Accompanied by an overall decline in individual integrity and a sharp increase in corruption and cynicism, this fall in the rate of economic growth precipitated a deterioration in popular morale. Not surprisingly, there was an increase in worker protests and popular demonstrations.

Since 1979 marks the onset of the Soviet Union's lower or negative growth rates, some observers argue that by holding on to office until his death in 1982, Brezhnev lived four years too long. But perhaps if Brezhnev had lived four more years, he might have brought the Soviet economy and political life to a level of chaos similar to the Cultural Revolution in China and the uprisings in Hungary. If so, then the Soviet people might be more welcoming of far-reaching economic reforms today.

By contrast, Deng's economic reforms were preceded not only by lower growth rates, but also by social chaos. The targets of Mao's Cultural Revolution were China's intellectuals, skilled workers, managers and virtually the whole party elite. The Cultural Revolution caused intense, sometimes violent, conflicts in the countryside as well as in the cities. Thus, at its conclusion, the party apparatus was in shambles, the economy was stagnating and the population was alienated. Whereas the Soviets blamed their aging leadership for the ills of society, the majority of the Chinese blamed the political system and ideology as well as their leaders for allowing such a calamity as the Cultural Revolution to occur. Therefore, they were more ready to accept radical changes in the existing system.

In some areas, such as Anhui province, economic conditions had so deteriorated that peasants broke away from the strict confines of the communal work system and once again began to work their prerevolutionary family plots. Whereas Mao had condemned such infractions when they first occurred in the early 1960s following the economic debacle of the Great Leap Forward, in the late 1970s the party authorities in Beijing could not agree on a response; after their persecution in the Cultural Revolution, they were still unsure what policies to follow. As peasants continued to take matters and the land into their own hands in Sichuan province and elsewhere, the Deng regime ultimately gave formal approval to this phenomenon, called the household responsibility system. Peasant families

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signed long-term contracts for 15 years or more with the state, which theoretically owned the lands. After paying a fixed amount to the state, peasants could grow whatever they pleased and sell it anywhere at whatever price they could get. Although there were a few pockets of resistance to the responsibility system, 96 percent of Chinese peasants were involved in it by 1984.

Unlike China under Mao, conditions in the Soviet Union under Brezhnev had not deteriorated enough to cause such relatively spontaneous actions. As any visitor to Moscow in late 1982 or early 1983 could see, there was genuine enthusiasm for Yuri Andropov as Brezhnev's successor, but no mandate for dramatic change. It was assumed that Andropov, as the onetime head of the KGB, would be a law-and-order man who could return the country to discipline, dignity and economic growth. That in effect is what happened. Within a few months, after a crackdown on corruption and drunkenness, production and economic rates of growth began to increase again. The growth rate was not as spectacular as it had been under Stalin, but it represented a respectable improvement. As conventionally measured (that is, by the number of tons of steel produced), the Soviet economy was growing. It made no difference for the statistics that much of the steel was the wrong kind, was sent immediately to storage and did little to improve consumer well-being.

As the economy began to recover, pressure for change abated. This sentiment was reflected in the statements of Nikolai Baibakov, then head of GOSPLAN, the State Planning Committee. When asked to comment on a study by a scholar at the Academy of Sciences in Siberia, Tatyana Zaslavskaya, criticizing the Soviet economic system as obsolete and advocating the scrapping of the central planning system, Baibakov took the offensive: "Who says that central planning is counterproductive? . . . Look at our growth rates. We are growing faster than most market economies, so why change?" By implication, he also asked whether it was worth the risk of unemployment and inflation that such a change would involve. Baibakov's response was not surprising. It reflected the views of the Soviet economic bureaucracy, which after 55 years of central planning had become deeply entrenched in the system and opposed to change. Baibakov was removed by Gorbachev.

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III

In allowing the peasants to work for themselves instead of the communes, the Deng regime approved what was already beginning to happen. The result was an immediate increase in food production, which of course benefited the urban areas as well. In less than ten years China's per capita income more than doubled from $150 to $350. Village and township manufacturing and trade enterprises also emerged, with annual output increasing at 20 percent a year. Deng has called this phenomenon "our greatest success—and it was one we had by no means anticipated."[1] Because peasants make up 80 percent of the Chinese population, as they began to prosper a majority of the population acquired a vested interest in the success of the reforms. Although the areas richer in resources and skills have benefited much more than the poorer areas, Deng has concrete evidence to show that the reforms can make a significant difference. Prices might be higher, ideologues might grumble about backsliding into capitalism and inequalities may increase, but the proof is in the peasants' rice bowl, which has become fuller and more varied than ever before.

In many ways this household responsibility system resembles the Soviet *prodnalog* system introduced by Lenin in 1921 as part of what came to be known as the New Economic Policy. Abandoning the policy of "war communism" and the nationalization of farms and businesses, the NEP allowed peasants to lease and till their own land, replaced the requisitioning of grain with a tax, permitted private ownership of small factories and trade, and allowed the sale of goods through a free market.

China's responsibility system in the countryside increased the demand for consumer goods and materials, prompting reform in the urban and industrial sectors on a similar pattern. Out of respect for ideological niceties, the state continues to retain control over the ownership of industrial and commercial property. Just as in the countryside, the state makes arrangements to lease or contract the operation of industrial and commercial enterprises. The leasing system began in 1982, when the state leased the operation of a failing silicon workshop in a Shanxi province copper refinery. The lessee pays taxes and rent for the use of the shop or parts of a factory, but, as in the West, after payment of a specified amount the lessee keeps what is

[1] *Beijing Review*, Aug. 24, 1987, p. 14.

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earned—or absorbs the losses if the enterprise fails. And as in agriculture, the lessee can be an individual, family or cooperative group. The lessee arrangement is used primarily for small, often failing enterprises. As of mid-1987, 10,000 to 15,000 such arrangements have been set up, and approximately 95 percent were operating profitably. Moreover, in many cases, such as the Shenyang Motor Oil Pump Factory, the lessee has taken on the operation not just of a shop but of the whole factory. Complaints are heard that such lease arrangements are so profitable that the lessee quickly begins to earn much more than before, on occasion as much as 37 times the average of his workers' income, and becomes "rich."[2]

Whereas the lease arrangements are primarily for small-scale operations, the contract system is for large and medium-sized state enterprises. Since 1956 in China the factory director has been subordinated to the factory's party committee, which makes the production and management decisions. The contract system is designed to break the hold of the party committee and its often economically irrational interference in the enterprise. The factory manager, not the party committee, is to be the decision-maker and the one answerable to the state. The party committee continues to implement general principles and carry out ideological and political education, but the factory director is to direct production, recruit factory personnel and manage the enterprise.

The idea is to separate ownership from management. The manager contracts with the state for the delivery of a certain amount of profits, which are to increase by 7.2 percent annually. In fact, however, negotiating the contract often takes as much ingenuity and influence as the actual production effort. As always, it helps to have friends in high places willing to agree to easy terms. Any profits over the contracted amount are kept by the enterprise, of which 60 percent is to be used for expansion, 20 percent for collective welfare and the rest for employee bonuses. If the basic quota to be delivered to the state is not fulfilled, the enterprise must cut the retainable profits and reduce bonuses. This system is now being tested in China's major cities, and if it proves successful, it is to be adopted nationwide.

Whereas leasehold and contract systems were not established until the mid-1980s, as early as 1979 the Deng regime had

[2] *Beijing Review*, July 6, 1987, p. 25.

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encouraged the formation of cooperative and private entities in service, commerce and small industry. While the industrial output of the state sector increased by 81 percent from 1978 to 1986, the industrial output of cooperatively owned enterprises rose 220 percent, albeit from a much lower base.[3] That is exclusive of the industrial output of cooperatives in the rural areas, which rose even faster. While private ownership is most common in retail and service enterprises, it expanded in the mid-1980s to include manufacturing and transportation, some enterprises employing over 100 workers, and in the lower Yangtze region, as many as 1,000 workers. In 1986 private enterprises accounted for only 16 percent of total sales, but they constituted over 80 percent of the total number of commercial and service entities.[4]

Another new phenomenon is the reopening of the Shanghai Stock Exchange, closed since 1949. Hundreds of people crowded a small banking center on September 26, 1986, when trading began in two Chinese joint stock companies. In the fall of 1987 more than 2,000 Shanghai citizens lined up to buy stocks issued by the Industrial and Commercial Bank of China and the Shanghai Trust and Investment Company. Stock exchanges have been opened in several major cities. As yet only a small number of shares are being offered, and the stocks issued are not to exceed 30 percent of the total capital stock of an enterprise. The public sector is to remain predominant.

China's urban and industrial reforms have encountered more ideological and bureaucratic resistance than the rural reforms. As opposed to the party cadres in the countryside, who benefited from the reforms by overseeing the reallocation of land and staking out franchises in transportation and other local enterprises, the party cadres in the urban industries gain little. If anything, they are likely to lose power because they are asked to relinquish their authority over production and management decisions, especially with the introduction of leasing and contract systems. An article in the national newspaper *Gongren Ribao* pointed out that "some people still regard the enterprise leasing system as a kind of private ownership system"

[3] *Beijing Review*, July 20, 1987, p. 27.

[4] "Statistical Data on the Achievements of 8 Years of Economic Structural Reform," *Hongqi* (Beijing) July 1, 1987, as translated in Foreign Broadcast Information Service, *Daily Report: China*, Aug. 4, 1987, pp. K-15–16.

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and the factory director responsibility system as "cancellation of the party's leadership."[5]

Although China had emulated the Soviet system of planning and management in the 1950s, its centralized planning system was always much less comprehensive and detailed, and has been managed centrally by a relatively small staff compared to the large bureaucratic ministries that plan the Soviet economy. Consequently, party resistance in China today comes more from inertia and opposition at the individual enterprise and local levels, in contrast to the Soviet Union where party resistance to industrial reform is concentrated in particular in the large planning bureaucracy in Moscow. Since the party committee plays only a minor role in Soviet enterprises, opposition comes more from such organizations as GOSPLAN and the industrial ministries, which are much more powerful than their Chinese counterparts.

IV

The Soviet reform process evolved differently than did the Chinese process. When Andropov instituted an immediate crackdown on indiscipline, corruption and alcoholism, he also commissioned several studies looking at possible economic reform. But his illness and death only a year and a quarter after he assumed control made it impossible for him to implement any of these proposals.

Talk of reform began in earnest only in 1985, when Gorbachev succeeded Konstantin Chernenko as the general secretary of the Communist Party. Then Gorbachev, who had been Andropov's protégé, attempted to pick up where Andropov had left off by again cracking down. This was implemented in the economy with a campaign of "intensification," which meant using existing resources more effectively, incurring less waste and introducing second and third shifts in factories where there had been only one. Resuming the attack on drunkenness, Gorbachev not only imposed higher vodka prices but forbade sales until two in the afternoon.

Like Andropov, Gorbachev decided to carry his campaign to the people. Whereas Andropov's travels were cut short by his illness, the younger, healthier Gorbachev popped up all over the country. No Russian or Soviet leader, including

[5] "To Uphold Reform Means to Uphold Socialism," in *Gongren Ribao* (Beijing), May 31, 1987, p. 1.

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Khrushchev, ever appeared in so many nooks and crannies. Gorbachev is personally attempting to arouse the people to work for themselves, as well as for the greater glory of the state. Unlike China's current leaders, Gorbachev stressed psychological incentives rather than material incentives in the early stages of the Soviet reform. During Gorbachev's first year as general secretary, his idea of economic reform involved little more than the traditional although contradictory call for improved centralization and more effective decentralization, but with no meaningful institutional change.

Whatever their impact on the masses, Gorbachev's travels also had an impact on him. An analysis of his speeches indicates that gradually he came to realize that the Soviet Union's economic problems could not be solved by exhortation alone. As he saw the stagnation and heard the complaints about the corruption and privileges of local party officials, he sensed that a return to discipline and an attack on alcoholism would not be enough to address the deeply entrenched nature of the Soviet Union's problems. Thus Gorbachev decided to go beyond renewed emphasis on discipline and sobriety, and advocate cultural, political and social change, and ultimately radical economic reforms. Early in his administration he called for *glasnost*, a summons for public criticism of bureaucratic wrongdoing, and advocated decentralization. In September 1986 he began to call for "democratization," by which he meant the introduction of elections with multiple candidates at the local level in order to curb some of the more extreme abuses of power. He hoped to unleash local initiative and creativity.

In contrast to Deng, Gorbachev found that he could not set economic reform in motion without first loosening the country's political controls. *Glasnost* and "democracy" on the local level had to come first. In China the controls had already been somewhat loosened by the disruption and decimation of the bureaucracy during the Cultural Revolution. Even though Deng in 1980 criticized the party's "over-centralization" of power, it was only after his economic reforms began to slow in 1986 that he and his reform colleagues began in earnest to advocate political reforms, principally the reduction of the party's role in the economy and separation of the party from the government and enterprises so that they might run more efficiently. They too called for "democracy" on the local level to encourage grass-roots initiatives.

Although the Soviet Union has a much more advanced

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economy, in many ways Gorbachev's problems are more serious than Deng's. Whereas the Stalinist system in China had been in place for almost 30 years when Deng began his reforms, at the time Gorbachev took over, the Stalinist system in the Soviet Union was already 65 years old. There are many onetime Chinese entrepreneurs who remember their old practices and have revived their old market ties. Few of the earlier Soviet entrepreneurs are alive today. While the Stalinist model is an alien body in China and therefore less integrated, it evolved on Soviet soil; its institutions are much more deeply rooted. The Soviet Union also has a more intensively developed capital infrastructure. Although this means that the Soviet Union has a greater industrial capacity, it also means that it is one that had been built up in the 1930s. Much has become outmoded. The average life of its industrial stock is 28 years.[6] That explains why Nikolai Maslennikov, the chairman of the Budget and Planning Commission of the Supreme Soviet, has estimated that at the present rate of replacement it will take ten to 15 years to overhaul the existing Soviet industrial structure.[7] In many ways it would have been easier to institute reform without such a large but obsolete capital endowment. If the Soviet economic system is to become competitive, Gorbachev will not only have to create a new mind-set, but a whole new industrial and agricultural infrastructure.

Unlike their Chinese counterparts, Soviet citizens have shown little spontaneous enthusiasm for the reforms, at least in the economic sphere. To generate the decentralization of decision-making that Gorbachev wants, he must first order people at the local level to think for themselves, whether they want to or not. Soviet peasants, for example, have not taken it upon themselves to break out of the collective farms. For that matter, when told that the collective farm could sell as much as 30 percent of what they grew for higher prices in cooperative and collective farm markets compared to what they might earn by selling their produce to state procurement agencies, the farms sold only two percent of what they grew at the higher price. Gorbachev has also tried to encourage the peasants to join in something like the contract responsibility system, and

[6] *Pravda*, June 30, 1987, pp. 2–4, as translated in Foreign Broadcast Information Service, *Daily Report: Soviet Union*, July 1, 1987, p. R-9.
[7] *Izvestia*, June 30, 1987, p. 4.

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even increase the size of their garden plots, but generally there has been little enthusiasm and in some cases outright resistance.

Accustomed to state paternalism, even if meager in its rewards, the Soviet population, particularly the Russians, seem much less willing than the Chinese to break out of the state-ordered and protected system and assume the risks of success. Soviet peasants remember the drastic punishment meted out during the collectivization of the late 1920s to anyone who was considered to have shown too much initiative or earned too much money. Moreover, the Chinese extended family has traditionally played a much more important role in economic endeavors than has its counterpart in the Soviet Union. Unlike Chinese family farms, which have had a long history, Russian family farms were barely established when the Soviet government first nationalized and then collectivized the land.

The same reluctance of the Soviet peasants to set off on their own prevails in the city. True, past reforms have been short-lived, but the lack of enthusiasm for Gorbachev's initiatives, particularly when compared to the alacrity with which the Chinese responded to similar initiatives, is striking. In all of Moscow (population 8.5 million) only 11,000 applications for private trade were submitted after private business was authorized on May 1, 1987. Admittedly it is still very early, but during a visit to Moscow and Leningrad in June 1987, for example, we found that only a few dozen individuals had sought official permits to drive their own private taxis. Partly because of the 70 years of repression and partly because the beginnings of Russian entrepreneurial activities in the late nineteenth and early twentieth century were cut short by the 1917 Revolution, there has been little spontaneous movement toward private enterprise now that it is allowed in the Soviet Union. Admittedly there is more interest in private trade among the non-Slavic nationalities, such as those living in the Baltic states and the Caucasus. However, fear of enriching the ethnic peoples at the expense of the Russians has also served to some extent as a constraint on promoting private initiative.

The Soviet Union's plan for the private sector is much more circumscribed than China's. For example, the Soviets have prohibited the hiring of workers other than family members. Of necessity, that precludes most private manufacturing activity. While the Chinese initially took a dim view of any large-scale hiring of non-family members, the hiring of from seven to ten people was allowed from the beginning. Now the number

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of workers that private businessmen can hire in China is indeterminate, reflecting the existing reality. It may be that with time the Soviets, like the Chinese, will become more flexible. But so far, not only do the Soviet central authorities seem uninterested in adopting a more liberal stance, but the potential entrepreneurs themselves, compared with their Chinese counterparts, also appear less eager to respond and less ambitious. Moreover, the signals the Soviet central government is sending are contradictory. For example, in mid-1986 Gorbachev announced a far-reaching crackdown on unearned or privately generated income. That was followed, however, a mere five months later with the decree authorizing the legalization of private business as of May 1, 1987.[8] No wonder potential Soviet entrepreneurs are hesitant about venturing into private enterprise, even if the practice is officially approved.

V

Gorbachev's attempts at reform have been further complicated by the fact that reform came to China first. When the Chinese began to experiment in late 1978 and 1979, most Soviet observers regarded virtually everything the Chinese did as heretical, a betrayal of Marx, Lenin, Stalin and Mao. Their negative response was only in part ideological. The Soviet Union, regarding itself as the leader of the communist world, was adverse to copying anything initiated by a subordinate member of the bloc, particularly large, rebellious China. Typically, therefore, any suggestion that the Soviet Union might usefully learn from the Chinese was met with derision and contempt. That at least was the attitude until early 1986, nine months after Gorbachev came to power.

During a visit to Moscow in January 1986, we were told that officials within the senior party leadership had ordered another look at the Chinese experiment. Shortly thereafter the tone of Soviet writings about China changed abruptly. Whereas before there was little positive to report, beginning in February 1986 it often seemed that there was nothing negative.[9] The profiteering, increasing inequalities, invitations to foreign investors, inflation, unemployment, prostitution, corruption and waste-

[8] Reportedly the two announcements were to have been made simultaneously in 1986, but Soviet conservatives refused to permit such an anti-Marxist step without a prior crackdown on "unearned income."

[9] See, for example, *Literaturnaya gazeta*, June 6, 1986, p. 14.

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fulness were often ignored. In any case they were no longer viewed as a sellout to capitalism and imperialism. Similarly, in early 1987, after looking on enviously as foreign business investment flooded into China, the Soviets also began to invite proposals for the creation of joint ventures on Soviet territory. This was the first time that private trade and joint ventures had been permitted in the Soviet Union since the 1920s.

It is instructive to compare the Soviet and Chinese approaches to joint ventures, as well as private enterprise. As soon as joint ventures were approved in China, there was an immediate response from within the country as well as from without. In 1980 there were two joint ventures and one wholly owned foreign enterprise; by mid-1987 the number had grown to over 7,800 Sino-foreign joint ventures and wholly owned foreign businesses.[10] In addition, China itself has established 277 enterprises outside China. Although Gorbachev has repeatedly called for joint ventures, only about 20 agreements had been formally reached by December 1987, and there was little indication that there would be a substantial increase in the near future. A distinct advantage the Chinese have in this respect is that the majority, 80 percent, of their joint ventures are with Hong Kong and overseas Chinese who want to help their motherland modernize as well as help themselves. The Russians do not have such a large overseas entrepreneurial community and, unlike their Chinese counterparts, those there are seem to have little desire to help develop the land of their ancestors.

The Soviets' more cautious attitude toward joint ventures is also reflected by the differences in the treatment of foreign investment. So far the Soviets have shown little interest in creating special economic zones similar to those established in China in the early 1980s.[11] These relatively free trade entities, like the one in Shenzhen, though slow in getting started, are becoming increasingly successful in bringing in foreign capital and know-how, especially from overseas Chinese. The Soviets apparently regard such zones as a form of extraterritoriality, something the Chinese at one time were determined to eliminate and that still offends the Soviets.

An even more sacrosanct issue for the Soviets is the question of the degree of foreign ownership. Not only are the Soviets

[10] *Beijing Review*, July 6, 1987, p. 23.
[11] Nikolai Shmelev, "Avancy i dolgi," *Novy Mir*, June 1987, p. 150.

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preceding much more cautiously, they are steadfastly refusing even to consider any ownership arrangement inside the Soviet Union other than one that gives them at least 51 percent control. Not surprisingly, almost no thought has been given to allowing foreigners the right to establish wholly owned foreign enterprises like the 130 already set up in China.[12]

Another important difference is that while Soviet reforms so far have focused primarily on industry in the cities, the Chinese began their reforms in the countryside. Admittedly only 20 percent of the Soviet population, not the 80 percent as in China, resides in the countryside. In addition, Soviet peasants work in a more severe climate and on broader expanses. This means that hard work alone will not produce the surge in output generated by the Chinese reforms. Soviet peasants must have more in the way of capital for barns, roads and machinery so they can respond rapidly to weather changes. Yet because the response of the Chinese peasantry has been so impressive, Gorbachev has apparently concluded that even without a massive investment program, unleashing Soviet peasants may still stimulate some increase in the supply of food. But as mentioned, his policies in this area so far have generated little enthusiasm and have brought little improvement in food supplies, particularly in meat, fruit and vegetables.

The central bureaucracy's resistance to economic reforms exists in both societies, but even more so in the Soviet Union because the Soviets have had tight central control twice as long as the Chinese. Thus far no amount of dismantling, merging, exhorting or pleading seems to have helped. As one Soviet observer put it: "Despite the passage of new laws demanding independence for the enterprise, the industrial ministries in Moscow continue to dictate orders, tax profits, and allocate imports." "This is armed robbery!" complained one Soviet manager in describing his "new" relationship to his old ministry. Another complained: "We are not masters of our resources. The ministry counts, decides, and approves everything for us."[13] In the Soviet Union as well as China the top leadership can promise more autonomy for the enterprise but it cannot force the central bureaucracy to yield it.

Another variant of this resistance to reform by the central bureaucracy is the struggle, particularly in the Soviet Union,

[12] *Beijing Review*, Apr. 20, 1987, p. 20.
[13] *Sotsialisticheskaya industria*, July 14, 1987, p. 1.

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to reduce military expenditures. As long as the Soviet Union expends 14 to 16 percent of its GNP on the military, Gorbachev will be unable to divert sufficient resources to light industry and consumption. Much of the alienation and unwillingness of the Soviet work force to extend itself is a consequence of the continued emphasis on heavy industry and the military, which would be difficult to sustain without central planning.

Deng recognized immediately that he had to change the concentration on heavy military industries at the expense of consumer goods. As early as November 14, 1974, during an interview with an American delegation before he was purged a second time, Deng insisted that "if we compete with the Soviet Union in atomic bombs, we can all go to meet God. If we make those bombs, we would not have enough food or clothes."[14] When he returned to power in late 1978, he moved immediately to reorient China's priorities. Whereas in 1973 China was allocating over 13 percent of its GNP to the military, by 1983 it had been cut back to 8.6 percent and is probably closer to six or seven percent today. In 1985 Deng called for the demobilization of one million soldiers; this met resistance, and as of mid-1987 only half a million had been demobilized. Nevertheless, the decrease in military expenditures has allowed Deng to respond to the increased demands of China's population for more consumer goods and of China's peasants for construction materials for their homes and farms. Being one of the few survivors of the Long March, Deng has the power to cut back China's military expenditures. Moreover, China's military hierarchy had lost some prestige because of its involvement in the Cultural Revolution.

If he is to succeed with his reforms, Gorbachev must be able to get a similar decrease. Lacking military experience, Gorbachev has had to defer to his military, who have resisted such a move without some arms control agreement with the United States. This as much as anything explains his eagerness to reach an agreement with President Reagan. He still has to push the actual cuts through his military-industrial complex, where he is bound to encounter more resistance than Deng has.

VI

In addition to bureaucratic and ideological opposition, Gorbachev and Deng face basic structural problems which may

[14] Interview with a delegation of American university presidents which Merle Goldman accompanied to China in November 1974.

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prove just as difficult to overcome. Both leaders seek to reduce party and bureaucratic direction of the economy, but factory managers must have some other form of signal to guide them. Both leaders have indicated that in place of administrative dictate, they want to substitute economic stimuli. But that means increasing the power of the market and allowing prices to reflect supply and demand conditions. In some instances that will mean that the prices will fall for products that are out of style or obsolete. But as both are economies of shortages, it is more likely that the prices for products in demand will rise, leading to inflation, at least in the short run.

China had already experienced some inflation when it freed prices on television appliances and some agricultural products in the mid-1980s. This poses severe political problems especially from workers, bureaucrats and intellectuals unhappy at having to pay higher prices for food, and may explain why in early 1987 China temporarily suspended attempts to free up prices. It also explains why the Soviets, except for a commitment to free many prices by 1991, have as yet done virtually nothing but agree that it is an important step to take.

Two other issues that both countries will have to deal with are unemployment and bankruptcy. The existence of small-scale private enterprises and cooperatives gives China an outlet for its unemployed, but it is still troubled by bankruptcy. There have been a few acknowledged state enterprise failures in both countries, but bankruptcy is politically and ideologically controversial. The Chinese and even more so the Soviets have long argued that bankruptcy and unemployment are only supposed to occur in the capitalist world. Since supposedly no such problems exist under socialism, there was no need for unemployment offices, unemployment insurance, computer job banks or job retraining programs. Yet economic authorities in both countries recognize that without the threat of unemployment and bankruptcy, labor discipline and product innovation will suffer.

China and the Soviet Union seek to become better integrated into the world economy. In the pre-Deng and pre-Gorbachev eras, both countries prided themselves on the insulation of their currencies and indeed their economies from capitalist world economic fluctuations. But this also meant shielding Chinese and Soviet manufacturers from the competitive pressures that face manufacturers elsewhere.

As long as technological change was slow, this was not a serious problem, but as the pace of innovation has quickened,

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and industry moves into the age of high technology, this isolation has hindered China and the Soviet Union in keeping up with technological advances. In effect China and particularly the Soviet Union have become the world's most protected economies; the slower pace of their technological change reflects this. The recognition that without integration their technologies would fall even further behind may explain more than anything else their willingness to ignore the ideological implications of encouraging joint ventures. It also explains the desire of both countries to join such integrating organizations as the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank.

The desire for increased involvement in world trade has also led to talk about currency convertibility. In the Soviet Union some have urged that Soviet citizens be allowed to import and export whatever they want. Whereas in the Soviet Union only enterprises can import equipment, in China provinces and large cities, as well as enterprises, have some independence in importing certain amounts of equipment for their local economies. Yet, as China has discovered, any sudden dose of free trade, even if only semi-free, creates serious balance of trade problems. A consequence has been a soaring import bill, trade imbalance and duplicated technologies. Freer trade can also cause widespread factory closings and unemployment as foreign imports displace currently protected domestic production. But if the Soviet Union and China desire to make their economies more competitive, they may have little choice.

VII

The reform processes in both countries are in their beginning stages; it is probably premature to predict their outcomes. Yet it is possible to make some preliminary evaluations. While there has been opposition to the reforms in both countries, both leaders have proven themselves deeply committed to them, specifically the economic reforms. Many observers have commented on the similarities between what Deng and Gorbachev are proposing and Lenin's New Economic Policy. It is significant, however, that neither Deng nor Gorbachev refers to what is happening as a step backward prior to taking two steps forward, as did Lenin. They do not refer to these reforms as a temporary expedient—they are steps forward, not backward. Yet because so much of what will happen depends on

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both the physical and political longevity of each country's leaders, predictions of success are hazardous.

Of the two countries, China has been at it longer and seems to have gone further. General Secretary Zhao Ziyang at the time of the 13th Party Congress in October 1987 predicted that in a few years only 30 percent of the economy will remain under the plan. But even for China the odds in favor of sustained reform are uncertain. Success in China will depend largely on whether or not Deng's successors are as firmly committed to reforms as Deng is himself and have the same power to carry them out. Chinese officials insist that Deng has effectively moved to replace opponents of reform with supporters. But the fact that Deng found it necessary in January 1987 to remove from the party secretaryship his heir apparent, Hu Yaobang, a man outspokenly in favor of reform, suggests that reform after Deng is not assured. Nevertheless, the changes in the countryside have been so successful that even if reformers do not come to power, it may be very difficult to retreat from the agricultural reforms, short of another revolution. Deng can also point to the development of an embryonic consumer economy as a concrete accomplishment.

What worries proponents of reform in the Soviet Union is that even with the considerably more accepting climate for reform that exists in China, the Chinese effort has had to zig and zag. This suggests that with a population more resistant to reform, the Soviets may be forced to zig and zag even more. Based on the response so far, it is also unlikely that the Soviets' reform effort will be as far-reaching. In China the economic reforms have allowed individuals and families, especially in the countryside, to carry out their own activities except in areas especially set aside for the party and the state. In the Soviet Union, it is the reverse; decision-making is still reserved for the state unless otherwise specified. The economic domain of the Soviet individual has barely increased; that domain is still very much circumscribed and definitely subordinated to the state.

Nevertheless, the area of intellectual autonomy has broadened considerably in the Soviet Union as well as in China. Both countries have opened their societies to the outside world by encouraging increased variety and frequency of international contacts and exposure to Western ideas. Although only a few hundred Soviet students study outside the Eastern bloc, about 40,000 Chinese students were studying abroad in 1986–87,

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including 20,000 in the United States. Gorbachev's and Deng's calls for democratization, competitive local elections and investigative reporting (*glasnost*), however, are not meant to produce democratic societies, but to prevent abuses of political power, reduce public alienation and generate public support for their reforms. While neither man is a democrat, these procedures plus a greater openness and introduction of elements of the market have made possible a more pluralistic society which recognizes ideologically, if not institutionally, the possibility of divergent ideas and interests. New styles and genres are blossoming in the arts. Fiction, drama and cinema are delving into hitherto forbidden subjects such as the destructiveness of Stalin's and Mao's reigns.

China's leaders are reinterpreting their Marxist-Leninist orthodoxy in order to sanction their reforms, using such slogans as "it is good to be rich," and declaring in 1987 that China was only in "the initial stage of socialism" in order to justify any form of economic activity—state, cooperative, private, joint venture and foreign. Although Gorbachev has not yet fiddled with the ideology, a number of Soviet and Chinese intellectuals call for more representative government and freedom of speech. Despite periodic retreats and continuing opposition from senior officials, the media and journals in both countries are being allowed some independence. They no longer are merely mouthpieces for the party. Decisions, especially in the Soviet Union, have devolved to editors and away from the party propaganda apparatus. Soviet television and newspapers like *Moscow News* and the magazine *Ogonyek* have become forums for debate of opposing views on major issues.

In their efforts to win acceptance of their reforms and counter party and bureaucratic opposition, both leaders have recruited the intellectuals to their side. Deng rehabilitated the victims of the Anti-Rightist Campaign and Cultural Revolution; Gorbachev reduced the number of political arrests and welcomed back from exile such dissidents as Andrei Sakharov. Intellectuals have been given a consultative role in policymaking, especially on scientific and economic matters. For the first time, a professional group, the Chinese Writers Union, was allowed a secret competitive election in 1984 to choose its own distinguished colleagues to head its organization rather than having to accept the party's imposition of literary bureaucrats.

Yet both Deng and Gorbachev send contradictory signals, especially to the intellectuals. When the patron of the intellec-

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tuals, Hu Yaobang, was dismissed, three prominent intellectuals were purged from the party, among them the writer-journalist Liu Binyan, who had been elected by an overwhelming majority of his colleagues to be a vice chairman of the Chinese Writers Union. A few more intellectuals were purged in August 1987 at the very time when China's leaders were planning the reformist 13th Party Congress. Even though there are some signs after the congress that these intellectuals are gradually being rehabilitated, there is justifiable fear of future purges.

In the same way, the purge of Boris Yeltsin, the reform-minded leader of the Moscow party organization, in November 1987 was particularly disheartening to the intellectuals who had been allowed a degree of autonomy and organizational independence under his jurisdiction. In happier days, Yeltsin had pointed out that during the Brezhnev era his words and actions would have led to his firing. That he was then removed by Gorbachev has to be inhibiting for those who contemplate similar outspokenness. The purge of a number of intellectuals in the Chinese Communist Party and the Hu Yaobang and Yeltsin affairs indicate that the one-party state and its monopoly of political power are still very much alive in both societies.

VIII

Some argue that because of its history and culture, China is more open to a market-type approach than the Soviet Union. This is a subject of enormous dispute, including whether or not one should even make such generalizations. Yet the fact that the reform process has been much more spontaneous in China—beginning at the grass roots even before or simultaneous with proposals for reform—and that it took root among the masses much more quickly than it has in the Soviet Union suggests that however it is defined, China may be a more receptive environment for economic reform than the Soviet Union. In China the peasants in particular, but even the workers and party cadres, have benefited from the reforms, especially from the availability of consumer goods. Soviet economic reforms so far exist primarily as policy statements with few concrete results to show. Given the capital-intensive needs of Soviet society, it will be at least five or six years before Gorbachev can point to significant improvements in the supply of consumer goods and housing to justify his reforms. Without noticeable and continuing improvement in the well-being of

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their citizens, neither the Soviet Union nor China will be able to sustain their economic reforms.

The nature of economic development in this high technology era also suggests that China, not the Soviet Union, may stand the better chance of transforming itself into a modern competitive economy, despite its lower level of economic development. Under the best of circumstances China has a very long way to go, but in addition to cultural and historic advantages, it also has the demonstration effect of the stunning economic growth of its immediate neighbors and cultural cousins—Japan, South Korea, Taiwan, Hong Kong and Singapore. In contrast to its previous emulation of the Soviet model, with its obsession with "gigantomania"—the larger the better—China, like its East Asian neighbors, is now promoting small-scale as well as large-scale industry. The newspaper *Guangming Ribao* points out that small-scale industries are more "flexible" and "shock-absorbing and risk-reducing" in the effort to acquire and develop high technology.[15] As yet, the Soviet Union has not acknowledged the need for small-scale industries.

East Asian countries have shown that a policy of import substitution combined with an ambitious program of export promotion can make for rapid economic modernization. Heretofore the Soviet Union and China have focused almost exclusively on import substitution. Labor-intensive operations designed to increase exports have been regarded as exploitative and beneath Soviet dignity. In contrast, the Chinese are now permitting and even encouraging cooperative, private and joint venture sweat operations, ten-hour days, sometimes seven days a week. As unpleasant and degrading as it may be, the Chinese seem to regard this as their comparative advantage. Indeed, this form of manufacturing has already begun to account for significant increases in cheap, although as yet unsophisticated exports reminiscent of their neighbors' exports of earlier days. This approach has turned out to be a rapid route to higher technology for countries with low levels of development. Starting with simple manufacturing, such as textiles and toys, they gradually work their way up to more sophisticated products like radios and televisions, and ultimately VCRs and computers. It is hard to see how the Soviet Union can duplicate this pattern, or what other route it can take that will bring similar results as rapidly.

[15] *Guangming Ribao* (Beijing), Sept. 12, 1984, p. 3.

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Because the Soviet Union and China have embarked on a venture—the rejection of the Stalinist system—not yet achieved anywhere else in the world, not even in Hungary, there is no model or blueprint. It will take experimentation, sacrifice, skill and sagacity. Will their societies and leaders have the patience and ability to persist in this venture?

If the economic reforms can be initiated in the Soviet Union and sustained in China, it could be that the ideological, political and systemic changes that accompany them may be even more far-reaching than the economic reforms themselves. The dimensions of these changes are immeasurable and their implications unclear. They might evolve in fits and starts and even stall, but if the process is not stopped altogether, Deng and Gorbachev may have set in motion phenomena that may make them, rather than Lenin, Stalin or Mao, the revolutionary benefactors of their societies.

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Yitzhak Shamir

ISRAEL AT 40: LOOKING BACK, LOOKING AHEAD

One of Israel's leading poets wrote recently that the State of Israel is the realization of the greatest collective effort of the Jewish people since Moses led the Hebrews out of Egypt. In the forty years since the leadership of a small community of 600,000 souls proclaimed the establishment of the state, this effort has shown dramatic results indeed.

On the very first day of Israel's existence, we were invaded by the armies of seven countries, whose combined populations outnumbered ours by more than a hundred to one. A full one percent of Israel's population was killed in our war of independence—in American terms today that would mean the loss of two-and-a-half million people.

In relation to its size, the country's borders were longer than any other country's, and virtually indefensible. Its infrastructure was embryonic, and its economy based mostly on agriculture and light industry. Yet in its first years Israel successfully repelled the military onslaught, defended itself against a continuous terrorist campaign, and absorbed and integrated 1.2 million Jews, twice the number of its original Jewish population.

Contrary to common perceptions, most of these immigrants were not the surviving remnants of the holocaust, but Jews from Arab countries, indigenous to the region, whose lives had become intolerable after World War II, and who were often in danger of annihilation. Almost 800,000 of them came to Israel, and now more than half of Israel's population is of Middle Eastern and North African origin.

Other immigrants, white, brown and black, arrived from over a hundred countries, speaking almost as many languages and dialects. They came from areas of unimaginable poverty and from the most prosperous lands on earth, from totalitarian dictatorships, medieval tyrannies and the most enlightened democracies. Afflicted by differences, irritations and incompatibilities, they have nevertheless become one nation, all pull-

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Yitzhak Shamir is the Prime Minister of Israel.

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ing—albeit often contentiously—in the same direction. And despite the natural volatility of such a mix, they have created a sound and secure society. Violent crime in Israel, for instance, including terrorist acts, is among the lowest in the industrial democracies—and one-tenth of that in the United States.

That people from such varied backgrounds became one nation in such a short time demonstrates the unique historical, religious and cultural bonds that tie the Jewish people together and to the Land of Israel. This unity and the traditional Jewish commitment to freedom and democracy buttressed the capacity of the fledgling state to withstand the initial assault by its neighbors and has enabled it to survive continuous hostility and a condition of quasi-war ever since, with its commitment to Western values intact.

Israel's citizens—Jews, Muslims, Druze and Christian—are equal before the law. Its judiciary is totally independent and beyond reproach; its elections, in which 70 to 80 percent of the electorate vote, are exemplary; its parties, from the extreme left to the extreme right, are all represented in parliament; and its numerous newspapers, in Hebrew, Arabic, English and other languages, reflect an incredible diversity of opinions. The Arab citizens of Israel are the only Arabs in the Middle East who can vote freely for a representative democratic government and who enjoy freedom of speech, assembly and movement.

Israel's declaration of independence, which proclaimed the rebirth of the Jewish state in its historical home, set down three main objectives. The first was to provide a haven for every Jew who needed and wanted it. The second was to make Israel a spiritual fountainhead and emotional magnet for the Jews of the world, so that those among them who wished to fulfill their lives as Jews would settle in it.

The third objective deemed important enough to be included in the declaration was peace with our neighbors. We wanted the state to be the fulfillment not only of our prayer "Next Year in Jerusalem," but of the prayer "He who makes peace in His high places, may He make peace for us."

There was no Palestinian problem as such at that time. The only people who called themselves Palestinians then were the Jews of Palestine. Our English-language newspaper was the *Palestine Post*, our orchestra, the Palestine Symphony, and our fundraising organization, the United Palestine Appeal. The Arabs living in Palestine insisted that they were part of the

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Arab nation and shunned the appellation "Palestinians." It is a common misconception today that Israel replaced some kind of Palestinian entity. In fact, in the 3,000-year history of the country, which we know as the Land of Israel and the world calls Palestine, the only independent national sovereignty ever to exist there has been Jewish.

II

There was little we were not ready to do to achieve peace. Attesting to that was the very fact that we accepted the U.N. General Assembly resolution on the establishment of a Jewish state in ten percent of the area originally allotted to a national Jewish homeland by the mandate of the League of Nations. But the Arabs around us found unacceptable the existence of an independent non-Arab state in any area, however small, of what had once been part of the Arab empire, and they continued to war against us. In 1967, as a consequence of one of these wars, we brought Judea, Samaria and Gaza, as much parts of the Land of Israel as any other, under Israel's control. Today, a little less than one-quarter of the area of the original Palestine mandate is in our hands. The other three-quarters, now called the Hashemite Kingdom of Jordan, is in Arab hands. Jordan, whose population consists of people from both sides of the Jordan River is, therefore, a Palestinian Arab state in every respect except in name.

When King Hussein's grandfather proclaimed his independence from Britain, he wanted to call his country Palestine. The British Foreign Office dissuaded him. King Hussein himself, and all other Palestinian leaders, have stated that the Arabs on both sides of the river are one nation. And indeed, two-thirds of Jordan's population is from western Palestine, as are most of the members of its parliament and the best-known prime ministers and members of the government. Stating these facts does not, of course, imply opposition on our part to King Hussein's rule in Jordan. But, clearly, another Palestinian state between Jordan and Israel, in the 2,000 square miles of Judea and Samaria—an area the size of a large county in the western United States—makes no sense politically, cannot be viable economically and can only serve as a terrorist, irredentist base from which both Israel and Jordan will be threatened.

What does make sense is continuing the peace process via the one and only route with a proven track record: direct negotiations between the parties to the conflict. I believe peace

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with Jordan is a realistic, eminently attainable goal. A de facto peace between our countries has existed for quite some time. Movement of Arabs from both sides of the Jordan River is free. Trade between Jordan and Judea and Samaria flourishes, and Palestinian Arabs in Judea and Samaria carry Jordanian passports and can vote in elections for Jordan's parliament. From the present conditions to a close cooperation with Jordan in a large variety of spheres is but a relatively small step, one which could lay the foundation for a formal peace treaty.

I have declared time and again that I am ready to meet King Hussein anywhere, anytime, without preconditions, to discuss peace. Direct negotiations with Jordan can start tomorrow, in Amman, in Jerusalem or on "neutral" ground such as Camp David, with the full blessing and unreserved backing of every member of the Israeli government.

A formula for negotiations was worked out at Camp David between Egyptian President Anwar al-Sadat and Prime Minister Menachem Begin. The centerpiece of the Camp David accords is the autonomy plan for the Palestinian Arabs, which includes a five-year transition period—a vital test of coexistence between Jews and Arabs. It leaves open for later deliberation the sensitive issue of sovereignty. And although it falls far short of our demands, it embodies a realistic attempt to move forward a political solution.

But the Jordanian monarch has maintained that he will only talk with us if we accept the Soviet proposal for an international conference to be held under the auspices of the United Nations. There is support for this idea in Israel, too, and clearly, as long as it exists, neither Hussein nor anyone else is going to come to direct talks.

We are told that King Hussein needs an international umbrella to protect himself from the radical forces in the Arab world. But a country that cannot defy the radicals on matters of procedure cannot be expected to defy them on matters of substance. Indeed, there cannot be any doubt that an international conference would be reduced to the lowest radical denominator, and present a united front against Israel. Its express purpose would be to effect total Israeli withdrawal to the 1949 armistice lines. Nor can there be any doubt that the notion of a purely ceremonial international conference, which would merely provide a cover for bilateral talks, is a chimera. The Soviets, who begat the idea of the conference, have made clear their intention to participate actively in its decision-making

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process. And European leaders, as well as the American secretary of state, have also declared that they would promote their own plans at such a conference.

The complex and sensitive nature of the issues between Israel and Jordan are such that only direct, independent, open-ended, face-to-face negotiations can provide the unpressured atmosphere that is absolutely vital for reaching an agreement. In these negotiations, representatives of the Arab residents of Judea and Samaria—not members of the Palestinian Liberation Organization and not terrorists—should of course participate. It is, after all, *their* autonomy that will be discussed. And while the exact nature of the autonomy should be left to the negotiating table, Israel's record of response to genuine peaceful intent speaks for itself.

Unfortunately, Palestinian Arabs in the past have too often entrusted their fate to other Arab governments and extreme elements such as the PLO. Terrorist organizations have used threats and assassination against those Arabs who showed an inclination to negotiate with us. That is why victory over terrorism is an essential prerequisite for the achievement of peace, and not, as some would have it, the other way around.

It is also necessary for Egypt and Jordan to join in the process and give the necessary backing to those Palestinian Arabs who will opt for negotiations and coexistence with Israel.

I am often asked why we do not simply ignore PLO terrorism and negotiate with this organization, recognized by the Arab League as the sole representative of the Palestinian people. It is an astonishing question. No country has ever been asked to negotiate with an organization that denies its right to exist. The PLO is not a Palestinian creation, nor has its existence anything to do with the so-called occupation of Judea and Samaria (the "West Bank"). It was organized by Egypt and Syria three years before the 1967 war to conduct terrorist warfare against Israel, and it is dedicated not to liberating this or that territory, but to the annihilation of Israel. That a terrorist organization, established less than 20 years after the holocaust and committed by its constitution to the destruction of Israel, enjoys observer status at the United Nations and diplomatic standing in many capitals is a sad commentary on the state of international morality.

In the ten years since President Sadat, responding to Menachem Begin's overtures, came to Jerusalem, the international community seems to have forgotten the unprecedented lengths

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to which Israel went to secure a peace treaty with Egypt. By relinquishing the Sinai Peninsula, Israel forfeited not only strategic depth in that sector, but 91 percent of all the land it had gained in the defensive war of 1967. Israel gave up 16 thriving towns and villages, rich oil wells it had developed, vast treasures of mineral wealth, and sophisticated air and naval bases. The total cost of the withdrawal has been estimated at a staggering $20 billion—practically the equivalent of Israel's foreign debt. I abstained in the vote in the Knesset on the Camp David accords for two reasons. First, I was opposed in principle to the evacuation of Israeli towns and villages as stipulated in the agreement. Second, I objected to the precedent set by our withdrawal to the June 1967 armistice lines.

But democratic governments are bound by treaties concluded by their predecessors, and the Camp David accords do represent the highest degree of agreement on a comprehensive peace plan that has ever been reached between Israel and an Arab country. We must work with it and ensure its fulfillment.

III

Since the signing of the Camp David accords and the peace treaty with Egypt, we have witnessed Egypt's growing tendency to distance itself from these agreements. We have been particularly disappointed by Egypt's reluctance to normalize relations with us. I have written to President Hosni Mubarak several times and tried to impress on him the crucial importance of demonstrating that Egypt's peace with Israel is workable, beneficial and can serve as a solid base for the expansion of the peace process. I continue to hope that Egypt's courage in piercing the barrier of hatred around Israel will be matched by a readiness to engage in an effort to revive the peace process. This could be achieved by renewing the talks on the ways and means of implementing the autonomy agreement, and taking up our proposal that President Mubarak invite King Hussein and us to peace talks under his sponsorship.

The Camp David accords recognized the intrinsic difference between our treaty with Egypt and any agreement we could conclude with our eastern neighbors. While we were willing to dismantle the towns and villages we built in the Sinai desert and to relinquish every inch of the Sinai, it is quite unthinkable that we should allow Judea and Samaria, the cradle of our nation and culture, to revert to being *Judenrein,* forbidden to Jews, which was the case during the Jordanian occupation of

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1948–67. Our legal right to the land was internationally recognized by the League of Nations when it awarded Great Britain the mandate of Palestine for the express purpose of establishing a Jewish homeland in it. But regardless of how the question of sovereignty over Judea and Samaria is resolved, we cannot be barred from Shiloh, Bethel and Hebron any more than we can be excluded from Jerusalem, Tel Aviv and Haifa.

The security problem, too, is quite different on our eastern border. In the case of Egypt, the 300 miles of desert separating the population centers of the two countries make agreements on demilitarization, separation of forces, multinational peacekeeping forces, listening posts and warning systems viable substitutes for strategic depth. But the borders of Judea and Samaria are within rifle range of pedestrians in the streets of Jerusalem and Tel Aviv. The Judea-Samaria mountain range dominates Israel's population centers, main industrial zones, its rail and road arteries and international airport. Relinquishing Israeli control over these ridges can only turn the clock back to the pre-June 1967 days when the Arab regimes felt that destroying Israel was a feasible option. For, lest we forget, peace with Egypt and the growing trend among some Arab regimes toward accepting Israel is a direct result of Israel's 1967 victory. A dwarfed, vulnerable Israel can only present a temptation that will inexorably reverse this trend and trigger another war.

With uncommon solicitude, we are told by some of our friends and all of our foes that we must forfeit control of Judea and Samaria because otherwise the high Arab birthrate will cause us to become a minority in our own country within a generation; that with the growing numbers of Arabs in Judea, Samaria and Gaza, the country can be either democratic or Jewish but not both, i.e., it can only retain Jewish control by depriving Arabs of the vote. Even if this threat were real, it would be unthinkable for Israel, as it would be for any nation, to relinquish its own territory, or its claims of sovereignty and the right to security because of demographic prognostications—particularly since history shows that these are highly speculative and inaccurate.

In 1967 we were warned that within 20 years the Arabs in the area between the Jordan River and the Mediterranean would outnumber us. In fact the ratio of Jews to Arabs west of the Jordan has remained virtually the same, two-thirds Jewish and one-third Arab.

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Population growth depends not only on birthrates but on many factors: economic cycles, immigration and emigration and unexpected influences on the birthrate curve. Our presence in Judea and Samaria has made the place more attractive; we established five universities where none existed before, employment is abundant, and the Arabs of the area enjoy, for the first time in their history, freedom of movement, speech and peaceful assembly and the right of habeas corpus. As a result, fewer Arabs leave it now than under the Jordanian occupation. In addition, 100,000 Arabs have entered the area under the family reunification plan.

People vote with their feet, and the Arab inhabitants have been voting for, rather than against, living under our "occupation." These facts should be borne in mind by those who are quick to condemn our presence in Judea, Samaria and Gaza and particularly our antiterrorist measures there. They should also remember that the Arabs who refer to us as occupiers of Judea, Samaria and Gaza also consider us occupiers of Jerusalem, Tel Aviv and Haifa.

But Judea and Samaria are, to a large extent, barren lands, and many of their residents seek their fortunes elsewhere, while the birthrate of those who remain is dropping as progress and modernity influence their life-styles.

Moreover, Jewish immigration, which has always been a factor in the demographic equation of Israel, will continue to be so. No one would have believed two decades ago that almost 200,000 Soviet Jews would come to Israel, nor that 12,000 Ethiopian Jews would. If only a quarter of the Jews who want to leave the Soviet Union choose Israel, 100,000 would come, and there are many in Iran, Syria and Ethiopia who must also be rescued. Regardless of demographic considerations, Israel must continue to give top priority to attracting Jews from all over the world. That is the essence of the Zionist dream.

Ultimately, the ability of Arabs and Jews to live together, and not population ratios or even peace treaties, will determine the prospects for peace. Learning to do so is a long process, with no easy solutions, for which patience and perseverance are essential. We must resist the temptation of a quick fix and beware the proclivity of democratic societies to negotiate with themselves. Under the constant pressure of domestic and international public opinion and growing impatience among the population in the face of harassment and uncertainty, such

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societies tend to make preemptive concessions. In Israel's case this could prove fatal.

Dictatorships suffer no such pressures. With no parliaments or free press to account to, they can persist with impunity in positions of intransigence. I believe the Arab people want to mingle with us as neighbors, tourists, tradesmen and sportsmen, not to confront us on the battlefield or at a road ambush. The evidence for this is plentiful. Some 100,000 Arabs from Judea, Samaria and Gaza work every day in Israel with virtually no incident. Arabs from countries whose governments call for our destruction come to our cities as tourists and to our hospitals as patients; they transact business with us—albeit furtively; they write fan letters to our radio disc jockeys, and they listen to and watch our news broadcasts. When their governments begin to respond to their wishes, peace—permanent, stable and durable peace—will come to our region. There is a direct relationship between Egypt's progress toward democracy and its willingness to make peace with us. The obverse is also true: the more tyrannical the regime, the less likely it is to negotiate and compromise. Those who derive hope for the Arab-Israeli conflict from the German-French rapprochement must remember that France and Germany were able to bury their age-old enmity only when they were both ruled by democratic governments.

IV

Differences in political philosophy have also plagued Israel's relationship with the Soviet Union. The U.S.S.R. initially supported the establishment of the State of Israel in 1948, and extended diplomatic recognition to it immediately. But when the Soviets realized that Israel was not going to be part of the socialist camp, they moved toward a pro-Arab policy, which over the years developed into alliances with the most virulent radical regimes, governments that are acknowledged sponsors of international terrorism and openly committed to the destruction of Israel.

Before 1967 the Soviet Union armed Egypt and Syria to the teeth, enabling them to provoke the Six-Day War. After Israel's victory the Soviets and their satellites severed diplomatic relations with Israel and massively rearmed Egypt, Syria and Iraq. When, following the October 1973 war, Egypt turned to the West, the U.S.S.R. continued to arm the rejectionist regimes of Syria, Libya, Iraq and the People's Democratic Republic of Yemen, this time concluding friendship treaties with them and

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accompanying the weapons systems with thousands of "advisers."

Syria, a confrontation state which makes no secret of its hope to destroy Israel, now has 8,000 Soviet advisers in its army and an antiaircraft missile system manned by Soviet officers and connected with Moscow command and control. It has acquired the Soviet Union's most sophisticated weapons, including MiG-29s, the most advanced Soviet tanks, long-range surface missiles that can hit Israel's interior, and a chemical warfare capability.

The Soviet Union helped initiate and pass the 1975 U.N. resolution equating Zionism with racism and has voted consistently—most recently last September—to expel Israel from the United Nations. Its policy on the emigration of Jews, more dependent on its relations with the United States than its involvement with the Arab-Israeli dispute, has gone from allowing almost 300,000 Jews to leave in the 1970s to permitting only a thousand a year in the 1980s. In 1987 the number rose to 8,000, and some of the more celebrated prisoners and refuseniks have been released. But there has been no change in the Soviet refusal to abide by international human rights agreements, which postulate the right of people everywhere to leave their country. Nor has there been any indication of willingness to allow the repatriation of the Jewish people who, unlike other ethnic groups in the Soviet Union, have no home there, to their homeland in Israel.

There have been some limited changes on the diplomatic level. Poland has reinstated diplomatic relations, albeit at a low level, and the Soviet Union has sent a temporary consular mission to Tel Aviv, as yet unreciprocated by the presence of an equivalent Israeli mission in Moscow. But Soviet support for the PLO and Syria, and its general anti-Camp David, rejectionist stance show no sign of diminishing. Last spring the Soviets sponsored a reconciliation of PLO factions on a platform calling for continued terrorism—euphemistically known as "armed struggle" and the dismantling of Israel. Let us hope that *glasnost*, internal reform and the signing of nuclear arms agreements with the United States will affect Soviet policy on Jewish emigration and change Soviet conduct in regional conflicts.

V

While Soviet policies toward Israel are governed by ideological and geopolitical considerations and reflect the general friction between totalitarian regimes and the free world, Eu-

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ropean attitudes have been dictated by economic considerations and energy policies. The European dependence on Arab oil, particularly during the 1970s, led to a pro-Arab stance. It took the form of huge arms sales to Arab countries and an embargo on sales to Israel, of diplomatic accommodation with the PLO and turning a blind eye to terrorist activities. With the collapse of oil prices and the growing realization that the use of the oil weapon against the West had more to do with economic factors than with the Arab-Israeli conflict, European relations with Israel improved. But the damage to Israel from the meteoric rise in oil prices was not confined to temporary diplomatic and political setbacks.

The transfer of hundreds of billions of dollars to the coffers of the Arab oil-producing states enabled them to become the largest purchasers of arms in the world—not only for themselves, but for countries such as Syria and Jordan which depend on their largesse. Since 1973 approximately $100 billion in sophisticated weapons have poured into Arab arsenals. Over $30 billion worth has been purchased by the Saudis alone. Such staggering military buildups can only exacerbate the volatility of an already highly inflamed area, particularly since the Arab regimes receiving these weapons repeatedly assure their allies that, regardless of what the U.S. Congress is told about the purpose of the purchases, the arms will ultimately be used against Israel.

Throughout the 1970s the United States resisted the economic and political pressures of the oil crises and retained the confidence of both sides in the Arab-Israeli conflict. The U.S. role was indispensable in concluding the interim agreements between Israel and Egypt and between Israel and Syria, as well as the Camp David accords. Now, too, America's relationship with both sides makes it a natural "honest broker" for future negotiations. Clearly, its closeness to Israel has only contributed to its credibility and ability to maneuver.

The change in America's relationship with Israel from sympathy and support to a strategic alliance was a gradual process in response to Middle Eastern realities and to Israel's emergence as a major geopolitical actor in the region. In 1970, when Syria, using the PLO cadres in Jordan as a fifth column, threatened to invade Jordan, it was Israel's warning, coordinated with the United States, that aborted the move. A Syrian victory, assured by its overwhelming superiority, would have meant the stationing of Syrian forces complete with Soviet

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"advisers" on the shore of the Red Sea, on the border of Saudi Arabia. In time it became clear that Israel was not only a power to be reckoned with but a strategic ally fully identified with the free world. Moving from that to the strategic agreement and the formalization of the relationship by granting Israel the status of a major ally was a natural development.

The relationship has proven strong enough to survive some painful incidents. The tensions during the Lebanon war were caused, I believe, by the chasm between the Israeli and American perceptions of the PLO. Despite its record of heinous crimes almost exclusively against civilians, the PLO was seen by some Americans at the time as a product of injustice and refugee camps, a guerrilla army fighting against the "occupation of the West Bank and Gaza."

Israel knew it to be a terrorist arm of Arab governments, an instrument of state-sponsored terrorism, which used victims of frustration and misery in the Arab world—by no means only in refugee camps—as its recruits for murder. Formed in 1964 it operated mostly from Jordan until chased out by King Hussein in the "Black September" clampdown of 1970, in which thousands of PLO members were killed. The PLO then settled in Lebanon, again on the initiative of the Arab governments, and developed an infrastructure of a despotic ministate and a center of world terrorism.

There was almost no terrorist group in the world that did not receive training, logistical assistance, financial support and weapons from the PLO. It succeeded in assembling over 20,000 trained men who, unlike regular armies of sovereign states, could hide behind the shield of civilians no one wanted to hurt. It threatened to become a serious destabilizing force not only against Israel and Jewish targets in Europe but against the whole free world.

Beyond that, Israel saw in the PLO the embodiment of Arab rejection of Israel's right to exist. The greatest obstacle to peace in the Middle East still is the insistence of Arab governments that the organization whose charter stipulates the destruction of Israel is the sole representative of the Palestinian people.

Washington did not always see it our way. While conceding our right to security on our northern border, it opposed the destruction of the PLO and intervened to rescue Yasir Arafat and his organization twice during the Lebanon war: once from

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the Israeli siege of Beirut, and then from the Syrian-sponsored attack by his rival, Abu Musa, in Tripoli.

The second goal of the war was a peace treaty with Lebanon. An agreement was signed under American sponsorship in May 1983, with the understanding that Syria would withdraw its forces from Lebanon. But the Syrian government reneged, and the Lebanese, who could not act independently as long as Syria occupied their land, scrapped the treaty. Syria now occupies 70 percent of Lebanon.

Israeli forces withdrew from Lebanon in 1985. Only a six-mile-wide security belt on our northern border is under Israeli control. Without it, the Galilee would be exposed to the same intolerable harassment—shelling and terrorist infiltration—to which it was subjected in the eight years preceding the Peace for the Galilee operation of 1982. But the partial reorganization of PLO elements in Lebanon and the introduction of hundreds of Iranian-sponsored Hezbollah terrorists into the area threaten to turn it again into a dangerous terrorist base. Until an independent, sovereign government is established in Lebanon and the Syrian occupation is removed, Israel will have to maintain a security belt and take the necessary measures to defend its northern region against terrorist incursions and shellings.

America's increasing understanding of Israel's problems with Lebanon-based terrorism contributed to cementing American-Israeli relations and to the calm atmosphere between the governments which followed the Lebanon war. By November 1983 Israel's relations with the United States had reached a stage of unprecedented cooperation and mutual understanding. It was given concrete expression in a statement by President Reagan announcing the establishment of a joint political-military coordinating committee and the decision to establish duty-free trade between the two countries. President Reagan also noted that friendship and cooperation between the two countries would continue, in spite of occasional differences of view. "Disagreements between good friends do not alter the unique and sturdy foundation of our relationship," he said.

VI

Another problem in U.S.-Israeli relations arose during the Arab demonstrations and riots in December. Pictures of riot-quelling by security forces are never pretty, and when taken out of context on television they can be ugly indeed. Perhaps

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Israel should be flattered that it is held to a higher standard and subjected to far greater and more prolonged scrutiny than other democracies that have had to combat similar disturbances in recent years. But the calumny heaped on Israel was wholly undeserved. In fact, the restraint shown by Israeli security forces in the face of attacks by youths wielding lethal explosives (known as Molotov cocktails), iron pipes, axes, knives and rocks was exemplary. Neither water cannons nor rubber bullets, so blithely recommended from a safe distance, could have been effective in all cases. Live ammunition was used only in extreme cases where lives were in danger. But terrorist organizations and extreme elements were bent on causing human casualties, which they considered helpful in their struggle against Israel.

Arab violence in our country goes back more than a hundred years, preceding not only the establishment of Israel but the advent of political Zionism. It is one of our era's great tragedies that the extremism and radicalism of the likes of the Grand Mufti of Jerusalem, the Nazi ally of the 1930s and 1940s, and of today's Yasir Arafat win the day in the Arab street rather than the moderation of King Hussein's great uncle, King Faisal, who advocated Jewish settlement in the Land of Israel, and that of today's proponents of Arab-Israeli coexistence.

That the Arab refugee problem, which affects a few hundred thousand, has been allowed to fester over forty years, while over 70 million refugees around the world, including a million Jewish refugees from Arab countries, have been resettled since World War II, is nothing short of an outrage. Unfortunately, the Arab governments have long resisted proposals for permanent resettlement of the refugees. I have, therefore, appealed to the international community, through the president of Italy among others, to address this issue by convening an international conference that will consider and recommend solutions to this problem.

Another factor contributing to the volatility in Judea, Samaria and Gaza is the uncertainty about the future. That is why Jordan's stubborn rejection of an existing mechanism—the Camp David autonomy provisions—and its insistence on a nonstarter like the Soviet proposal for an international conference is so regrettable. It is an attitude that can only postpone the day of a political settlement.

These tremors seemed to affect neither the general sympathy for Israel among the general public in the United States nor the substance of U.S.-Israeli relations. In addition to a feeling

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of a moral commitment to the Jewish people and the influence of the Jewish community in America, a growing mutuality of interests has developed. The strategic, political and economic understanding has been institutionalized because both countries believed it served their interests. Secretary of State George Shultz recently said, "Our support for Israel has basically been very much in the interests of the United States."

In its relationship with the United States, Israel will strive for the greatest possible friendship and cooperation and the smallest possible economic dependence. The security requirements of the free world in general and Israel in particular make a reduction in the need for U.S. military assistance unlikely. The bulk of this assistance, however, is money spent in the United States for the production of weapon systems for use by the Israeli armed forces. Calculated within the equation of free world security it is a small amount, certainly a fraction of what the United States spends on NATO. It is reciprocated by military intelligence, battlefield experience and technical innovation for American arms. But Israel should wean itself from the nonmilitary economic aid, now amounting to $1.2 billion annually and used almost wholly for servicing Israel's debt, incurred by past purchases of military matériel.

Israel's defense budget takes a substantially larger bite out of its GNP than any other in the free world. The Israeli taxpayer pays for 70 percent of Israel's defense outlays, $5 billion out of $7 billion, a portion considerably higher than the percentage that NATO citizens spend on their own defense.

Israel is poor in natural resources. A prevalent Israeli joke is that it took the Hebrews no less than 40 years of wandering in the desert to find the only place in the Middle East without oil. Israel must rely on what *Fortune* magazine described as "the ultimate weapon in Israel's arsenal: the brainpower and entrepreneurial zeal of its work force." In many areas it has shown impressive results. Some of its production processes compete with those of the most sophisticated and powerful economies in the world, and many of its high-technology products are based on its own scientific creativity and technical innovation.

Part of this development is due to our demanding security situation. Having had all too often to rely on ourselves in facing the challenge of advanced Soviet weapons, we developed expertise in various defense technologies. Prominent among them are electronic countermeasures, electro-optics and avionic systems. But even more impressive is what Israel has to offer in

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the nonmilitary fields. It is a leader in microelectronics, computer hardware and software, biotechnology, chemicals, telecommunications, medical diagnostic and monitoring equipment, solar and other energy systems, and irrigation technologies. Israel leads the world in diamond-polishing, both in production and marketing; its banking operations are global; and its exports range from tomatoes to executive jets.

Not having the size and the scale to compete in conventional mass production, Israel must excel in new ideas, innovative breakthroughs in products and processes. Now that air travel and satellite communications have shrunk the world, Israel can provide world businesses with unsurpassed skills. Thus, for example, electronic companies assign research and development to Israel while locating production in other countries. Such ventures abound between innovative Israeli companies and established international producers in microelectronics, biotechnology, computers, special energy systems and office automation. These enterprises enjoy the extra benefit of Israel's free trade agreements with both the United States and the European Common Market. No other country can offer this access to the two major Western markets.

The dislocations of wars, the relinquishing of the Sinai, the oil shocks of the 1970s and their ripple effects, the economic slump in the West, the double-digit inflation in the United States in the late 1970s, the Lebanon war and a cumbersome wage and price indexing system all affected our economy and helped cause runaway inflation. But due mostly to the willingness of Israelis in all walks of life to make personal sacrifices and lower their standard of living for the common good, we succeeded, in a much shorter time than we had a right to expect, in bringing inflation down from triple digits to below 17 percent a year. Our immediate goal is to reduce it to a single digit within the next two years. Having stabilized the economy, we intend now to stimulate growth by cutting taxes, liberalizing the capital market, selling off government-owned companies and reducing bureaucratic involvement in business.

But what we aspire to is not just economic independence and a better life. Perhaps the most unusual part of Israel's outlook is its belief that no matter what difficulties it has to confront, it must extend a helping hand to others. Since 1957 Israel has provided expert aid to scores of countries in such critical areas as agricultural technology, irrigation, food production, housing, communications, electrification, construction, water sys-

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tems, health and regional planning. These countries include 31 black African nations, as well as other lands of the Mediterranean littoral, Asia, Central America and South America. Israel's expertise derives from direct experience in developing a land which a little over a century ago was nothing but desert, rock and swamp. Now this expertise is being used in Egypt—still on a small scale—to the benefit of both countries. There is nothing Israel would rather do than contribute this expertise in science, technology, medicine and agriculture to all the other countries of the Middle East.

Our goals, not in any particular order, are as follows:

—*Solidifying Israel's friendship and cooperation with the United States.* This entails further deepening and institutionalizing of trade, strategic and political collaboration, and greater efforts in achieving economic independence and explaining our position to the American public.

—*Strengthening the peace with Egypt.* Our partner in peace should shoulder with us the responsibility for normalizing relations between our countries and for bringing our other neighbors to the negotiating table.

—*Attaining peace and coexistence with all our neighbors.* This entails projecting the message that violence will not bring a solution to the conflict; that terrorism must end; that the PLO cannot be a participant in any political process; that Arab refugees must be resettled; and that direct negotiations without preconditions is the only viable option for reaching peace.

—*Fulfilling the ideal* of making Israel the home of the Jewish people and an Israeli society that is founded on the moral principles of the biblical prophets.

The roots of Jewish and Arab heritage—in language, history, culture and religion—have much in common. Together the two peoples can usher in a renaissance chapter in the region. Our vision of peace is not limited to ending hostilities, or even to eliminating the threat of war. What we strive for is the fulfillment of the dream of the founder of Zionism, Theodor Herzl, who envisioned ninety years ago that a Jewish state would be a partner in bringing about an economic renaissance and unprecedented growth in the region, the realization of its unlimited potential, the flourishing of its culture, and a life of coexistence, amity and goodwill for all its people.

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Linda Robinson

PEACE IN CENTRAL AMERICA?

As 1987 began, the United States was reeling from the revelations of the Iran-contra affair. A series of investigations consumed most of the year and much of the time and attention of the public and government alike. Despite the scandal, during most of the year the Nicaraguan rebels, or contras, continued to receive a $100-million, congressionally approved aid package to escalate their war. The battle over whether to renew such aid promised to be the focal point of the region in 1987. Yet by August all five Central American countries had signed a regional peace plan in Guatemala City.

How did we get from investigations and guerrilla war to "give peace a chance" in just a few months? The surprise conclusion of the pact in Guatemala resulted from extensive maneuverings which took place out of the limelight of the Iran-contra investigations. The Iran-contra hearings starkly displayed how divided Congress and the Reagan Administration were over U.S. policy toward Nicaragua, and this division gave a crucial impetus to the diplomatic effort. But the hearings, while a prominent forum, did not resolve the debate over Nicaragua. They focused on finding out exactly what had been done in the name of the U.S. government by a few National Security Council officials, private citizens and some CIA personnel.

Public support for the contras surged briefly after the televised testimony of former NSC aide Lieutenant Colonel Oliver North, but a month later substantially less than half of those surveyed favored continued aid. Public opinion seemed roughly unchanged by the endless testimony, but more Americans did come to know which side their government supported in Nicaragua.

At any rate, the scandal did not cause an immediate backlash against the contras. Congress did not take an opportunity to cut off funding to the rebels in March when it voted on the final installment of the $100 million, for heavy artillery. The

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Linda Robinson, Associate Editor of *Foreign Affairs*, visited Central America in 1986 and 1987.

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Senate vote was close (48–52), but votes on contra aid had been close even before the Democrats won control of the chamber in the November 1986 elections. The House did not vote on a strict cutoff measure, but rather voted (230–196) to withhold the last $40 million until the Administration accounted for previous aid. It constituted less than a rejection of contra aid, although some said it was a warning that a future request would not pass.

These March votes revealed an ambivalence that even the Iran-contra scandal had failed to erase; Congress as a whole was not willing to make the resistance pay for the errors of its patrons. Moreover, Congress wanted to avoid the charge of abandoning the contras. This gave impetus to the search for an alternative that would mitigate that charge as well as avoid the perils of leaving the United States without a policy.

Suddenly, on August 4, the White House announced a peace proposal for Central America which had the backing of President Reagan and Speaker of the House Jim Wright (D-Tex.). Less than 72 hours later, the five Central American presidents, meeting in Guatemala, signed their own "procedure for establishing firm and lasting peace in Central America." Wright immediately embraced the Central American plan, and said it supplanted his own proposal.

This confusing turnabout in both Administration and Central American positions was the product of seven months of backstage efforts in the United States and Central America to find a diplomatic escape from the war. The Administration only focused its full attention on the diplomatic track in the last weeks of July. Whether its interest in diplomacy was a tactical move to gain votes for contra aid or a genuine attempt to find an acceptable deal, others were several steps ahead. Many in the U.S. Congress had decided that they had to push for a solution in Central America; as the events of 1987 played out, the activities of some would skirt close to the Logan Act proscriptions against unauthorized diplomacy.

II

The central initiative, a carefully crafted Costa Rican plan, represented a break from the previous diplomacy of the Contadora group—Colombia, Mexico, Panama and Venezuela. Their efforts had been stymied since the Central Americans had declined to accept a draft treaty in mid-1986. In early 1987 the Contadora group and four supporting Latin Ameri-

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can nations made two attempts to resuscitate their diplomacy, enlisting the help of the United Nations, the Organization of American States and the European Economic Community. But January and February meetings with the Central Americans made no progress.

While Contadora was trying but failing, Costa Rican President Oscar Arias Sánchez felt his way toward a proposal of his own. In framing his plan, he received support and input from various quarters. Wright was not involved at this stage, but others in Congress were actively promoting a diplomatic gambit. In January Representative Jim Slattery (D-Kans.) and two aides met in Miami with the contra leadership, then comprising Alfonso Robelo, Adolfo Calero and Arturo Cruz, to sound out their views on an acceptable negotiating tack. In this meeting all three leaders agreed to the idea of a mediator, such as the internal opposition parties or the Nicaraguan cardinal, Miguel Obando y Bravo. One of Slattery's aides said that they saw the contras' support as the key to getting the Administration to agree. If the contras were amenable to negotiation, they reasoned, how could the Administration oppose it?

Slattery then visited Central America, where he talked with Costa Rican President Arias. About the same time U.S. officials, including Assistant Secretary for Inter-American Affairs Elliott Abrams and Special Envoy Philip Habib, met in Miami with Costa Rican Foreign Minister Rodrigo Madrigal Nieto, where they reportedly expressed interest in the idea of a Central American-generated diplomatic effort. Then in early February the opposition political parties in Nicaragua proposed a peace initiative including several elements that surfaced in the Costa Rican proposal.

Representative Slattery got 110 of his colleagues, including some who had supported contra aid, to agree on a negotiating proposal. In late March they sent a letter to President Reagan, asking him to back a 90-day cease-fire in the region, a halt in U.S. aid to the contras and Soviet-bloc military aid to the Sandinista government, a restoration of freedoms in Nicaragua, and talks between the Sandinistas and the internal opposition, and between the Sandinistas and the United States. The Administration tried for several months to draft an answer to the Slattery proposal, but officials were unable to agree on its substance. The newly reorganized contra leadership issued a statement supporting the proposal, as well as the Arias plan,

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which differed mainly in not requiring the Sandinistas to forgo Soviet-bloc aid.

The Arias plan, unveiled February 15, called for a national dialogue with domestic opposition, amnesties, cease-fires, democratization, free elections and renewal of arms reduction talks. While some of these measures did not have to be implemented immediately, the plan called for suspension of aid to armed insurgents, including the contras, upon signature of the document. At a February 15 meeting in San José, President Arias presented the plan to his Salvadoran, Honduran and Guatemalan counterparts. His idea was to get all four democracies to agree, and then approach Nicaragua.

The three other presidents had not helped draft the Arias plan, and so were not prepared to sign the proposal at that meeting. But they agreed to invite Nicaragua to a meeting within 90 days to discuss it. Nicaragua was miffed at being excluded from the first meeting, and at the obvious attempt to circumvent Contadora, but after sensing U.S. ambivalence about Arias' plan, it agreed to meet.

Despite squabbling over the date and venue, a preliminary meeting was set for July 31-August 1 in Tegucigalpa, the Honduran capital. In June President Arias had visited President Reagan, who reportedly offered both support and criticism of the plan. Then Arias visited Central American officials during July to discuss differences over his proposal; former Venezuelan President Luis Herrera Campíns also brought fellow Christian Democrats Salvadoran President José Napoleón Duarte and Guatemalan President Vinicio Cerezo together to resolve their differences.

Ambassador Habib testified before Congress on July 9, answering charges that the Administration was trying to torpedo the Costa Rican proposal: "What we were trying to do was to create an agenda for the meeting of the five in the summit which, if it were to produce an agreement based on this agenda, would be something which . . . we could all live with. . . . If our views and our objectives are not taken into account, why would we not oppose it?"

Habib listed the Administration's objectives as full democratization, "the resistance's involvement . . . in connection with arranging a cease-fire," and "at some stage the inclusion of the democratic resistance in the political dialogue." Further, U.S. "suspension of military aid to the resistance . . . would only occur upon the entry into force of an agreed cease-fire." He

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urged a "clear definition of the verification and monitoring procedures," and noted the Arias plan lacked "any provision for limiting Soviet, Cuban, and other Communist bloc military presence in Nicaragua."[1]

At the July 31 meeting of foreign ministers in Tegucigalpa, the Hondurans presented a proposal that included these elements. Some viewed the proposal as made in the United States, but Honduran interests actually paralleled U.S. interests more closely than those of any other Central American country. Honduras has a small army, a long border with Nicaragua, and—unlike Costa Rica—it fears being stuck with a huge contra presence if the Sandinistas are permitted to consolidate their power. Having returned to democracy only in 1981, with a shaky transition in 1985, Honduras is also more vulnerable to destabilization. Both the Sandinistas and the contras are potential threats to the country, although the military sees the former as the more pressing. As long as U.S. backing for the contras continues, Honduras can hope that the United States will contain any problem they pose. The Honduran proposal was rejected out of hand, partly because it was presented as an alternative rather than as amendments to the Arias plan. Also, the focus was shifting to gaining the Sandinistas' agreement. They would agree to a cease-fire only *after* aid to the contras stopped, and were reluctant to discuss "democratization."

The first substantive breakthrough came when Duarte's son, part of the Salvadoran delegation, proposed simultaneous implementation of three elements: cease-fires, amnesties and nonuse of neighboring territory by insurgents. Although the Tegucigalpa meeting ended without agreement, participants later pointed to this concept as an important contribution. President Duarte was also warming up to the idea of a peace agreement, and simultaneity of implementation was a concept he could sell to his conservative military chiefs. A U.S. official who visited Duarte about this time sensed that he might "do something" at the upcoming August 7 presidents' summit in Guatemala.

III

In Washington, the Administration wanted to build bipartisan support on the Hill for its Nicaragua policy, and in July the

[1] "Recent Events Concerning the Arias Peace Proposal," Hearing and Markup before the Committee on Foreign Affairs and its Subcommittee on Western Hemisphere Affairs, House of Representatives, July 9, 1987, pp. 6–8, 17, 19.

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White House hired former Texas Congressman Tom Loeffler to do the job. He found fellow Texan Wright interested in a bipartisan negotiating proposal if the Administration was sincere. In the last week of July a small group set to work with Wright, including White House Chief of Staff Howard Baker, Secretary of State George Shultz and then National Security Adviser Frank Carlucci.

Concurrent with these discussions, Wright, who knew many of the Central American leaders, was also consulting with them. He spoke with President Arias' brother, with Costa Rican Ambassador Guido Fernández and Nicaraguan Ambassador Carlos Tünnermann, and revised the plan according to what they told him would be acceptable. Wright told them that this was "not a take it or leave it" proposal, in Fernández's words; that they should feel free to accept or reject aspects or all of it.

The Wright plan called for "democratization" in Nicaragua but also emphasized the need for ensuring that there would be no Soviet-bloc bases, no military threat to the hemisphere, and no staging ground for subversion from Nicaragua. In exchange for cutting off military aid to the contras upon implementation of a cease-fire, it called for Nicaragua to stop receiving Soviet-bloc military aid at the same time. It proposed a negotiated drawdown of foreign military advisers, and offered a U.S. suspension of combat maneuvers in Honduras. A regional agreement on security issues was to be negotiated with U.S. participation—though a dispute subsequently broke out over whether this meant bilateral or multilateral talks. Finally, the negotiating process was to be completed by September 30, when contra aid expired.

Previously the Administration had argued that military pressure would force the Sandinistas to negotiate significant concessions if not relinquish power. The Wright-Reagan plan, however, described in detail for the first time what the U.S. terms might be for a negotiated settlement. While this plan had President Reagan's imprimatur, it was hastily drawn up, without input from key officials with responsibility for Central America (e.g., Ambassador Habib). They did not know until President Reagan had already signed off, too late to make any major revisions. The State Department was told to have its ambassadors relay the proposal immediately to the Central American presidents, who were just about to leave for the summit in Guatemala. Defense Secretary Caspar Weinberger, who apparently had also been in the dark, proposed that several

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caveats be added, but Wright resisted. The contra leaders were not forewarned either but gamely suppressed their surprise.

The negotiations on the Wright plan had obviously been restricted so that hard-liners would not scuttle the proposal. But the effect was also to give Wright a leading role in shaping its substance. It is possible that no agreement would have been reached if the initiative had been fully vetted within the executive branch, as had happened with Representative Slattery's proposal. But putting out a proposal with the president's approval effectively signaled that the Administration was shifting from a military to a diplomatic track—an important step even if the intent was merely to secure more contra aid. It could be and was used to prevent the Administration from seeking more military aid. Further, the Sandinistas promptly proposed direct talks with the United States on the plan.

The other Central Americans were somewhat perplexed. The American embassies, themselves surprised by the proposal, had minimal instructions on how to present it. The proposal began by stating U.S. views on basic elements "that need to be included in a peace plan"—wording that sounded peremptory to many of the Central Americans. The five presidents decided simply to put the Wright plan aside and consider only the Arias plan, a decision probably encouraged by Wright's earlier remarks. The Nicaraguans suggested that the Wright plan be seen as a U.S. offer to negotiate directly with Nicaragua and that therefore the Central Americans could continue with their own plan, without addressing U.S. concerns. In any case, the Arias proposal focused on questions of democracy rather than security. The Hondurans, who had no advance notice of the Wright plan, thought that it could somehow be taken up in tandem with the Arias plan or after it had been completed.

U.S. diplomats in the region readily understood the irritation the eleventh-hour proposal caused; as one put it: "it almost guaranteed that the Central Americans would feel that the United States was trying to push them around one more time." But the Central Americans' decision to sign the Arias plan was more than a fit of pique. Each country made an assessment of its own concerns and vulnerabilities.

IV

Although President Duarte has been a close ally of the United States, he has rarely refrained from doing what he felt was best for his country or for himself politically. The accord

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could be seen as both. Duarte had already held unsuccessful negotiations with the Salvadoran guerrillas; the accord asked no more than that he try again. Since the security provisions were not spelled out, he did not have to reduce either his U.S. advisers or military aid, the latter essential if the Salvadoran war continued. Equally important, the accord forbade the Sandinistas from supporting the Salvadoran guerrillas and legitimized Duarte's government.

Those aspects which made the accord acceptable to Duarte made it easier on the Sandinistas. For example, Duarte would not have signed an agreement that required him to hold new elections, as the U.S. Administration wanted the Sandinistas to do. Duarte may have also wanted more commitments from the Sandinistas, but he was not prepared to reciprocate in his own country. As it was, the commitments he undertook were probably the maximum tolerable to the Salvadoran military and conservatives. Duarte was further motivated to sign the accord as a popular peacemaking effort. He had not fulfilled his campaign promise to end the war, and by mid-1987 was facing serious economic and political troubles at home.

The Hondurans, in the view of one U.S. official, had little idea of what they were getting into when they signed the accord. Honduras had a tremendous task, to be sure, if it were to comply with the plan's provision that the contras not use its territory. The government, when it acknowledged the contra presence, said that it did not have the ability to patrol its jungle border with Nicaragua. The Hondurans clearly wished more demands to be made of Nicaragua; their army is much smaller than the Sandinistas' or the Salvadorans', their traditional enemy. But they chose to stress that their compliance would depend on a Nicaraguan cease-fire, which they obviously thought would not be reached. Honduras, though anti-Sandinista, had become increasingly unhappy hosting an estimated 200,000 refugees, many of them Nicaraguan, and thousands of contras, and fearful of trusting its security to their future success.

Perhaps most surprising was the Nicaraguan decision to sign the Arias plan, which demanded far more internal opening than the Contadora draft treaty. Most Central American officials thought that the dire state of the Nicaraguan economy had forced the Sandinistas to take a chance. Inflation exceeded 1,000 percent for 1987, and its per capita foreign debt is the highest in Latin America, having grown to $7 billion from $1.5

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billion when the Sandinistas took power. In this view, the Sandinistas hoped the accord would encourage international donors; nevertheless Soviet-bloc aid will probably continue.

But the main prize was a cutoff in contra aid. And, as U.S. officials were quick to point out, many of the required steps could be reversed once the contra threat had been defused. Former Ambassador to Costa Rica Francis McNeil noted that the Sandinistas displayed a tactical flexibility that some conservatives erroneously thought impossible for doctrinaire Marxist-Leninists; McNeil was one of the few who considered agreement to be a live possibility, as he testified in early July to Congress. In the event, Nicaraguan President Daniel Ortega gambled that minimum compliance by the Sandinistas would ensure a cutoff of contra aid by Congress. The chances also seemed fair that the Administration would derail the accord, in which case it, and not the Sandinistas, would be blamed. Finally, Ortega announced on his return to Nicaragua from Guatemala that the accord did not in any way affect the revolution, saying "in Nicaragua, when we speak of democratization, we are not speaking of anything new."[2]

Yet success in Guatemala was far from a foregone conclusion. According to Costa Rican Ambassador Fernández, a key factor was that the presidents met alone and stayed in the room until they reached agreement. At the outset Arias confronted Ortega, telling him that unless he was prepared to make concessions they might as well go home; the latter replied that he would be flexible.

Another key moment followed an angry exchange between Duarte and Ortega, in which they traded accusations of aiding each other's insurgencies; Duarte asked Ortega three times if he would keep his word. With the other presidents as witnesses, the two shook hands. The Guatemalan president, Vinicio Cerezo, was from the beginning more amenable to signing. Thus Duarte's decision was probably the turning point. That left Honduran President José Azcona to incur sole blame if he refused to sign; the four-to-one lineup was too much for him. The presidents' meeting broke up in the early hours of August 7 with an agreement in principle, and the foreign ministers spent the night drafting it. The next morning the Honduran foreign minister left the group and returned with reservations,

[2] Foreign Broadcast Information Service, *Daily Report: Latin America*, Aug. 11, 1987, p. I-4.

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according to one official, but the others overruled his desire to pull back.

In sum, the presidents decided that the costs of war in Nicaragua and El Salvador and the attendant risks were more threatening than the hazards of a conciliatory peace process.

The August 7 accord called for signatory governments to hold talks with unarmed opposition groups, to issue amnesties, to form national reconciliation commissions including opposition and church representatives, to "take all the necessary actions in order to achieve an effective cease-fire," for democratization (including complete freedom for television, radio and the press; full political party freedom to organize, move and proselytize; the lifting of states of emergency and the guarantee of constitutional liberties), for free elections according to established constitutional timetables and elections in 1988 to a new Central American parliament. The accord requested all governments to cease open or covert military, logistical and financial aid to insurgent groups; and all the signatories were to deny use of their territory to insurgents. Finally, the signatories agreed to resume the Contadora negotiations on security issues, but set no timetable for them.

In 90 days, by November 5, the amnesty, cease-fire and democratization measures were to be implemented simultaneously with the end to use of territory and aid to insurgents. An International Verification Commission would analyze progress in compliance after 120 days; it included the Central American foreign ministers and representatives of Contadora, its support group, and the O.A.S. and U.N. secretaries-general. After 150 days (later changed to January 15, 1988) the presidents were to meet and take the "pertinent decisions."

Surprise and skepticism greeted the August 7 accord; speculation immediately arose that the United States would try to foil its success, since it did not meet many U.S. concerns, particularly on security. But the plan, once signed, generated a momentum; each country sought to avoid blame for derailing the effort. Because the White House had given its blessing to the Wright proposal, it was under pressure to endorse the Guatemala accord. Although many believed President Reagan would never countenance a settlement leaving the Sandinistas in power, he issued a statement saying, "I welcome this commitment to peace and democracy by the five Central American presidents, and I hope it will lead to peace in Central America and democracy in Nicaragua."

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On August 12 the president addressed the nation, mainly on the just-finished Iran-contra hearings but adding a comment on the Central American agreement: "We have always been willing to talk," he said; "we have never been willing to abandon those who were fighting for democracy and freedom." A few days later, however, the president went on vacation, leaving others to wonder what the next step would be.

V

Not surprisingly, it soon became clear that Congress would not renew contra aid as long as the peace process was continuing. Many U.S. officials feared that implementation of the accord would drag out, creating a gray area rather than clear compliance or noncompliance, thus leaving the Nicaraguan resistance without support. The Administration insisted it would go ahead with a $270-million aid request, but then backed down in the face of congressional opposition.

On August 17 the U.S. chiefs of mission to all Central American countries conferred in Washington, and left with instructions to stress the three main objectives outlined in the Wright proposal: no Soviet military base in Nicaragua, no subversion of its neighbors, and full democracy. But the Administration's hands were tied. The Central Americans were not about to renegotiate the accord. Even the most stalwart of U.S. allies suggested that the United States resolve its concerns directly with Nicaragua or that they be resolved later in the Contadora framework.

But the United States signaled that it did not intend to open negotiations any time soon. The State Department announced on August 14 that Ambassador Habib was returning to private life. He is an experienced diplomat who might have been able to resolve those matters left unaddressed in the Arias plan. Secretary Shultz reportedly raised this possibility but was rebuffed by others in the Administration, leading Habib to resign.

The Administration had apparently decided to wait and see whether the accord would fall apart, and there was certainly a good possibility that it would. In September, the White House secured $3.5 million in "nonlethal" aid to bridge the gap between the end of aid on September 30 and the November 5 deadline in the Arias plan. The contras proposed that military aid be approved and held in escrow, but to no avail. From the

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right a chorus of criticism began that the United States was abandoning the contras, but the Administration could do little that would not jeopardize the contras' cause in Congress.

On August 15, the opposition staged a rally in the Nicaraguan capital; the Sandinistas broke it up with dogs and electric batons, and arrested two Nicaraguans, sentencing them on the spot to 30 days in jail. Several experienced U.S. diplomats doubted that the Sandinistas could live up to their democratization promises, much less agree to a full amnesty or negotiated cease-fire, which would legitimize the rebels. But by the end of September the Costa Rican foreign minister had persuaded the Sandinistas to allow the opposition paper *La Prensa* to reopen without censorship. The Sandinistas also formed a National Reconciliation Commission, and boldly named their most prominent critic, Cardinal Obando y Bravo, its head.

When the Central American foreign ministers met in Costa Rica a week before the November 5 deadline, they redefined it as the date by which compliance should begin, not be completed. This was because no cease-fire had been arranged. The Sandinistas had declared a limited unilateral cease-fire, but refused to negotiate with the resistance. In September President Reagan had said that the Guatemala plan "falls short of the safeguards for democracy and our national security," and warned that the Sandinista moves could turn out to be "Potemkin reforms."

Arias' ability to pressure all parties was boosted greatly on October 13, when he was awarded the Nobel Peace Prize. He immediately put his increased stature to use, insisting that a negotiated cease-fire was "indispensable" and urging the Sandinistas to accept Cardinal Obando as mediator. The Nicaraguan bishops not only endorsed a negotiated cease-fire; since 1984 they had held that "Nicaraguans who are in armed rebellion . . . should also participate in the dialogue [with the government and the opposition parties]. If this were not the case, there would be no possibility of a solution."[3]

Although November 5 was no longer a deadline, it was still a day of reckoning. President Ortega announced that he would conduct indirect talks with the contras on a cease-fire but not political matters. Some 980 political prisoners would be re-

[3] Conference of Bishops of Nicaragua, Pastoral Letter, Sept. 17, 1987.

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leased,[4] but granting full amnesty and lifting the state of emergency would not occur until contra aid stopped. He pointed to other steps: two exiled bishops had been granted permission to return to Nicaragua and the church radio allowed to resume broadcasts. (An opposition request to open a television station had not been answered.)

Honduras had not undertaken its main commitment, that of denying bases to the contras. On October 13, however, Arias had said that it need not do so until there was a cease-fire in Nicaragua. The contras were now mostly in Nicaragua, but Hondurans feared they could be forced back into Honduras by Sandinista military pressure or a cutoff of U.S. aid. Logistical supply of the contras has continued through Honduras; it is unclear whether the accord permits humanitarian aid to continue via this route during a cease-fire.

All of these fears led Honduran Foreign Minister Carlos López Contreras to propose bilateral talks with Nicaragua in a November 12 speech to the OAS. He suggested trading expulsion of U.S. troops for that of Nicaragua's Soviet-bloc advisers, and creating a demilitarized zone for any contras in Honduras in exchange for a Sandinista no-incursion pledge and a military pullback from the border. The Honduran ambassador told a worried United States that these were merely ideas, but Honduras clearly felt a need to plan for its own compliance.

To comply with the accord, Guatemala formed a National Reconciliation Commission, declared an amnesty and held an inconclusive round of talks with its guerrilla opposition, whose forces number less than 2,000. While sporadic fighting continues, the current question is whether the country's 1985 return to democracy can lead to a process of reform. Though less publicized in U.S. media, Guatemala's war of the 1970s and early 1980s took more lives than El Salvador's. Unlike its Salvadoran counterpart, the Guatemalan army has won its war—and without U.S. aid. As one conservative put it, there is no need to negotiate, and there are no political prisoners to release. Even officials in the Cerezo government echo the sentiment that this chapter is closed; all military abuses were pardoned by the outgoing military government. Cerezo's at-

[4] Estimates of political prisoners range from a few thousand to 10,000. The Lawyers' Committee on Human Rights reported in November 1987 that 3,000 suspected contra supporters were arrested in the first six months of 1987; well over 1,000 were awaiting trial before the Anti-Somocista People's Tribunals. Sandinista militants sit on these tribunals, which can impose sentences of up to 30 years without any right of appeal to the regular court system.

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tempts at reform have been limited; his main task is completing his term and turning over power to a civilian.

Guatemala's concerns are far removed from the Nicaraguan conflict. Although conservative Guatemalans in particular are concerned about the potential security threat, Cerezo has a modus vivendi with the Sandinistas: don't aid our guerrillas and we won't aid yours, as prominent opposition politician Edmund Mulet described it. While the previous government had aided the contras, Cerezo's policy is "active neutrality." He is firmly in favor of democracy in Nicaragua, but he is not going to do much about it.

VI

The Salvadoran government is obviously much more worried about the Sandinistas, who have supplied Salvadoran guerrillas with matériel, aid and comfort. But the guerrillas, the Faribundo Martí National Liberation (FMLN) front, also have weapons captured from the Salvadoran army and sanctuaries in El Salvador. A U.S. official said the effect on the FMLN of a cutoff of Sandinista aid would be "significant but not definitive." Although the military has won back much territory, the country still receives well over $500 million a year in U.S. aid. This level of aid—only Israel and Egypt receive more—makes claims of success sound ludicrous; on the other hand, in 1980 many predicted the country would fall to the guerrillas. The questions now are whether El Salvador can begin to sustain itself economically, which depends on the war winding down further, and whether the democratic process can move ahead.

There is no sentiment in the U.S. Congress for cutting off aid to El Salvador, but budget pressures may force a decrease. The FMLN fighters are down to 5,000–6,000 from 12,000 in 1984, but they still are a potent force. In March they attacked the El Paraíso base north of San Salvador, killing 69 Salvadoran soldiers and one U.S. adviser. Their attacks on economic and transportation targets and laying of landmines continue to plague the countryside. Much more of Salvadoran territory is under guerrilla control than in Nicaragua. Media coverage of the Salvadoran war has decreased, partly because the sensational death-squad killings have fallen off. But the casualty rate is still high; in one week in August, according to the auxiliary bishop's Sunday homily (which regularly reports such news), 46 people died in war-related violence.

The other undramatic but new fact of life in El Salvador is

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the increasing professionalism of the military. U.S. training appears to have improved fighting and reduced abuses perpetrated by soldiers. Still, as in Guatemala, few right-wing killers have been punished. An amnesty law, passed in October to comply with the peace plan, permits release of rightists and leftists accused or convicted of political crimes. That same month 4,700 refugees returned, but several hundred thousand remain abroad.

Salvadoran civilian politics continue to be fractious. Opposition legislators were on strike until April. Conservatives protest taxes and any reform or austerity that Duarte proposes, and the coffee-dependent economy is a shambles. Those on Duarte's left decry his failure to bring about fundamental change, and all sides complain of corruption and the low caliber of his cabinet.

President Duarte took the initiative the peace plan had given him and called for a dialogue with the FMLN. Two rounds of talks held in October produced no substantive agreement; neither side's position has changed since previous meetings. The government asks the guerrillas to lay down their weapons and join the political process, saying democracy has now made their fight unnecessary. The guerrillas insist on being given a role in the government until elections can be held, and on integrating their forces with the army. The guerrillas show no sign of compromising, but neither do they have the leverage to gain their maximum aims, despite some success in rebuilding their urban base the past few years.

The FMLN broke off talks after the killing of a human rights leader on October 26, which raised fears of renewed right-wing terror. The most important event was the November visit of prominent politicians in exile, Rubén Zamora and Guillermo Ungo, allies of the FMLN under the Democratic Revolutionary Front. They said they would test the accord by organizing for the March 1988 legislative and municipal elections. Duarte called on them to renounce their guerrilla ties; observers say the FMLN might retaliate by killing them, though the right may get to them first.

In what was viewed as an attempt to steal the returning exiles' limelight, Duarte announced that a witness had come forward to testify in the unsolved 1980 murder of Archbishop Oscar Romero. The witness implicated Roberto D'Aubuisson, a former military officer who was Duarte's main challenger in the 1984 elections (Duarte won 54 percent in a runoff vote).

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There is a less cynical interpretation of Duarte's move: to the extent that the right is on the defensive, it may be less likely to strike out. But Duarte has made himself as much a target as those to his left: D'Aubuisson counter-charged that one of Duarte's key military aides, Colonel Reynaldo López Nuila, had overseen killings while head of the National Police. There are skeletons in many military closets, but conviction of D'Aubuisson and others is unlikely. Legal requirements for proof are onerous, witnesses are often intimidated or killed, and many judges side with rightists.

El Salvador appears to be entering another volatile period. The U.S. embassy had been predicting that the moderate elements of the guerrilla coalition would return to build an electoral following in the vacuum on the left; it may be that this is the only possible passage to normalcy for the country. El Salvador is far too divided to achieve a steady-state under a Christian Democratic monopoly. While the Christian Democrats will probably win the next elections, the long-term viability of democracy there may be better served by a multiparty system. The right is presently divided; the weaker its electoral prospects, the more tempting may be the resort to violence.

While a successful transfer of power in 1989 will be a test of democratization in El Salvador, the key over the next year may be the power of U.S. aid. If Duarte—or possibly Zamora or Ungo—were to be assassinated by the right, Congress might well cut off aid. Duarte's allies in the military know this, and while their power over extremists is limited, it may suffice. Still, some rightists have already suggested that a coup might be in order. In the longer run the military's dominance must be addressed; this largely depends on the civilian government becoming more efficient. The military not only prosecutes the war; it effectively runs the regions that it reclaims from the FMLN, providing services and reconstruction. The more professional of the officers know that this gainsays the goal of leaving government to the civilians, but they say it is often a question of their doing the job or its not getting done.

VII

As for the war in Nicaragua, its death toll was mounting to Salvadoran proportions; in a speech on November 4 at Moscow's Bolshevik Revolution anniversary, President Ortega said there were now 45,714 victims of the war in his country of 2.7

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million. (The Salvadoran toll: 61,000 deaths, population 5.6 million.)

Ortega also said "the North American government . . . will try to use our presence in this glorious event to get those 270 million [dollars] approved. But . . . we will never give up our fraternal relations with the Soviet Union." Another Sandinista official, Bayardo Arce, in a Managua speech on the same occasion, expressed appreciation for Soviet nonmilitary aid, which he estimated at $2 billion since the 1979 Sandinista victory. (Soviet military hardware alone has been estimated by the United States at $2 billion.)

In October a call went out for 30,000 more Nicaraguans to register for military service; the draft is the reason many of the half-million Nicaraguans have left the country. On October 25 a senior Defense Ministry aide, Roger Miranda, defected to the United States; to preempt his expected divulgence of information, Defense Minister Humberto Ortega announced that Nicaragua had plans to put 600,000 under arms.[5] The army now numbers 65,000–70,000. There are 1,000 to 2,000 Cuban advisers, some of whom are reportedly taking Nicaraguan citizenship, which could undercut any agreement to remove foreign advisers.

Miranda's information was made public in December, and while he reportedly had failed a polygraph test, Humberto Ortega made another speech, again confirming the planned buildup, and acknowledging that the Soviets had agreed to supply weapons well into the 1990s. Miranda said the Soviets had promised MiG jets, but these had been sought before and never delivered. The revelations were expected to help the Administration win further stopgap aid from Congress. Even though the Central American accord did not bar Nicaragua from receiving Soviet-bloc aid, the Sandinista statements plus Miranda's revelations certainly contradicted the spirit of the agreement.

The Sandinistas have expressed their willingness to reduce foreign advisers and refrain from subversion, but doubt persists. Secretary Shultz told the American Bar Association on February 12, 1987, that Soviet reconnaissance planes have already begun operations in Nicaragua. The U.S. embassy in El Salvador said Sandinista aid to the Salvadoran guerrillas is

[5] Foreign Broadcast Information Service, *Daily Report: Latin America*, Nov. 5, 1987, pp. 9–15.

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difficult to track, but does continue. It is usually discovered after the fact, when peasants report being forced to carry arms that have been brought in. The U.S. government is understandably loath to publish the evidence of the arms flow, but doing so would buttress its assertion that the Sandinistas still threaten their neighbors.

About mid-1987 the press began to report contra military gains; the contras launched offensive actions in April, July, October and December, the last two being the most effective. In October contra forces cut traffic on the important Rama road for 48 hours and held several towns, and in December they attacked three towns and a Sandinista army headquarters in northeast Nicaragua. They have used Redeye missiles effectively, by their own count downing 25 Soviet-supplied helicopters.

Human rights problems, however, continue to plague the resistance. An investigation, funded from the $100 million in U.S. aid and conducted by a Nicaraguan exile organization, cited numerous cases of summary executions, civilian abuses and kidnapping.[6] Perhaps more damning was the group's report that Enrique Bermúdez, military chief of the main contra army Nicaraguan Democratic Forces (FDN), had ordered the investigators out of the northern border camps. He was "disturbed" that one case was being reinvestigated, since "the FDN prosecutor had considered the case closed." It involved the 1984 summary execution of eight Sandinista soldiers, which had been corroborated by several witnesses and raised by Amnesty International and Americas Watch. As of late 1987 no further action had been taken. In fact the accused, Commandante Atila, led a unit accompanied in April by a *Newsweek* reporter, whose report cast doubt on the leader's military prowess and discipline, and surmised that peasants felt forced to aid the contras.

The efforts of the State Department, notably Elliott Abrams, to reform the contra leadership and reduce the abuses continued in 1987. A major reorganization of the civilian directorate was accomplished in March, bringing in four more liberal directors to balance the two conservatives. But the basic problem remained: the conservative factions control the troops, and hence ultimate power.

[6] La Asociación Nicaragüense Pro-Derechos Humanos, "Six-Month Report on Human Rights in the Nicaraguan Resistance," San José, Costa Rica, July 1987. See pp. 7–9, 40.

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The death of an American citizen was the kind of one-time incident that affects U.S. public opinion beyond any proportionate measure. Benjamin Linder, who lived in Nicaragua and worked on a northern hydroelectric project, was killed on April 28; there were numerous reports as to just how he died, but it was certainly at contra hands. The dam he helped build was blown up by contras on September 12; this kind of economic warfare, while practiced by other insurgencies, including the Salvadoran one, is far more likely to alienate the population than attacks on strictly military targets.

The option of continuing the war is less likely since the Guatemala accord; still, it bears asking what the contras could expect from more fighting. In February then U.S. Southern Command chief General John Galvin testified in Congress that three to seven more years of military aid to the contras was necessary if they were to evolve into a successful insurgency. Assistant Secretary Abrams defended the need for an open-ended commitment: "If it's a cause worth supporting, it's worth supporting if the contras are going to take Managua . . . in December 1988 or if they're going to take Managua in December 1995."[7] Though Congress has surprised many by continuing support for the contras, it seems unlikely to do so at high levels for several years—making an eventual negotiated settlement more likely.

In December 1987 indirect talks between the contras and the Sandinistas mediated by Cardinal Obando were held, but ended in a standoff, though a Christmas truce was agreed. The accord did not require the Sandinistas to discuss political matters, but the contras kept insisting on it. Obando was potentially the contras' ally; he saw the conflict as a civil war, prompted by wide disaffection with the Sandinista agenda. But in assuming the role of mediator, the cardinal came under pressure to find a deal that both sides could accept, and to downplay his personal views.

The Guatemala accord did not require the Sandinistas to hold early elections, but the opposition may be able to exploit the freedoms provided in the accord to pressure the Sandinistas into making some changes. The likelihood of real power being contested at the polls has already been dismissed by many, however, given the conditions under which the opposition will be operating.

[7] *The Christian Science Monitor*, Jan. 5, 1987.

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In January 1987 Nicaragua promulgated a constitution that opposition parties had tried to revise, objecting to the virtual wedding of state and army with the Sandinista party. The legislature's powers are weak, even over the budget. Sandinista mass organizations are state-funded, and the block committees, though defunct in some areas, are not only in charge of services but dispense ration cards, approve public housing applications and conduct neighborhood surveillance. Municipal elections, expected in 1987, were deferred by the Sandinistas.

The real test will not come until the 1990 presidential elections. The 1984 presidential elections provide a lesson. After extensive negotiations, candidate Arturo Cruz agreed to run if he could get his opposition coalition to agree to the terms he had negotiated. His coalition had been badly divided over participating, but the Sandinistas would not give him 48 hours to try to gain approval and called off the deal. The 1990 elections will be supervised by an electoral commission nominated by the Sandinista leaders and confirmed by a Sandinista-dominated assembly. Observers may prevent blatant fraud. But defeating the Sandinistas in elections would require a unity and cohesion that the opposition does not now have, and the Sandinistas possess the means to ensure that it won't.

VIII

The Miranda revelations spurred Congress in December to add $8.1 million in nonlethal aid for the contras to its 1988 appropriations bill.[8] In November Congress had supplied a stopgap infusion of $3.2 million in nonlethal contra aid through December 16. Congressional sources warned that a majority would oppose any request for military aid if the peace process was making progress. Determining what would constitute sufficient progress was a matter of debate, both in Washington and among the Central American leaders. President Arias was unlikely to declare his plan a failure, but he could not ignore the lack of full compliance. So long as the compliance record remained insufficient, Congress risked being charged with abandonment of the Nicaraguan rebels. As the plan's final deadline of January 15 approached, therefore, it became ap-

[8] The complicated measure allowed nonlethal aid and transportation of previously purchased military equipment for up to two months. It set votes for Feb. 3–4 on an expected Administration request for more aid, and left open the possibility of another request after June 30. *The New York Times*, Dec. 21, 1987, p. A17.

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parent that the Sandinistas would have to take some further steps toward compliance.

When the five presidents met in San José on January 15–16, 1988, Daniel Ortega was reportedly pressured by the other four to offer some concessions or face the possibility that the peace process would break down. If the Sandinistas were blamed for the breakdown, the United States might renew military aid to the contras. To avert this possibility Ortega agreed to open direct talks with contras, but only on cease-fire terms and not political matters. He also agreed to suspend the state of emergency, and to issue a fuller amnesty subject to certain conditions. After the meeting President Arias stressed that fulfillment of these pledges would be required to forestall contra aid, saying the future of aid was "entirely in Daniel Ortega's hands." While the presidents were meeting, however, several leaders of Nicaragua's internal opposition were arrested by Sandinista police because they had met with contras in Guatemala. The internal opposition and the contras had agreed in that meeting to call on the Sandinistas to hold joint talks with both the armed and the unarmed opposition.

The U.S. Administration announced that it would request more aid for the contras as planned, making the February 3–4 votes in Congress the new deadline for progress. The Central American summit of January 15–16 broke up with a call for immediate compliance, and did not set any date for a further meeting.

The Sandinistas are clearly counting on Congress' aversion to aid; as one Nicaraguan official put it: "The Administration does not have the political capacity to ignore the will of Congress." But Congress does not want to get too far out on a limb, because the Administration might saw it off.

The year 1987 had ended with complicated maneuvering by Speaker Wright, the Sandinistas and the Administration over what was to be done. In a November 11 speech to the OAS in Washington, Ortega charged that the United States had reneged on its pledge to hold direct talks with the Nicaraguan government, apparently referring to the Wright-Reagan plan.[9] But two days earlier, President Reagan had said the United States would engage in multilateral talks only after "serious

[9] The Wright version said: "The United States shall enter into bilateral discussions with the governments of the region—including the government of Nicaragua," but the Administration version omitted "bilateral."

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negotiations between the Sandinistas and the freedom fighters, under the mediation of Cardinal Obando, are under way."[10]

At a meeting with Speaker Wright on November 13 Ortega presented a cease-fire proposal to Cardinal Obando. Wright also offered the services of four people, including two of his aides and veteran arms control negotiator Paul Warnke. Wright soon heard from an irate Administration, which expressed concern that the Speaker was creating "confusion" and "misleading impressions." Wright was unyielding, and only after two meetings was a statement issued saying that the differences had been resolved, both parties wanted the Arias peace plan to succeed and they agreed that negotiations should be "guided primarily by Central Americans."

Secretary Shultz dismissed the conflict with Wright as a "tiff," which it was, but it revealed not just frayed nerves but fundamental differences. The Administration had decided, at least for the time, to stay in the background of the peace process, while Wright clearly wanted the United States to get involved in talks. It was not clear whether Congress might make such negotiations a litmus test for renewing aid. To put the focus on U.S.-Nicaraguan talks, the Administration argued, would take pressure off the Sandinistas to negotiate seriously with the contras.

Waiting for progress in the cease-fire talks made sense, but active U.S. participation would probably produce a better deal. If the Administration waits too long, it may find itself excluded again. In signing the accord, the Central Americans usurped the Administration's obvious bargaining chip; they traded the contras for democratization, but as they defined it. If the United States wants to negotiate for more, it will need new carrots or sticks; the promise of normal relations and renewed aid might be carrot enough, but it is not certain.

In the United States, liberals have often acted as though the main problem with Nicaragua was Ronald Reagan. Many think that insurgencies should ipso facto not be made in the U.S.A., that the country cannot achieve its goals by acting like the Soviet Union. A U.S.-created resistance is bound to have less appeal than an indigenous one. On the other hand, despite the contras' origins they now have a base in the country, and disaffection with the Sandinistas is great. Yet the Reagan Doc-

[10] "Remarks by the President to Leaders of the Organization of American States," Nov. 9, 1987.

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trine, whatever its rhetorical value, may be unworkable simply given congressional ambivalence. It is ironic, however, that Congress continues to support insurgencies in Afghanistan, Cambodia and Angola but not one closer to home where U.S. interests are greater.

Nevertheless, it will be impossible to return to a contra policy if those fighting are left unaided for many months. Given the situation inside Nicaragua, the contras could not remain there in force for long. The Sandinista army is too strong and well equipped, and the informant-control network is very good. If necessary the government would once again round up all suspected supporters. The revolution is about three-quarters consolidated, despite economic troubles and discontent. Those familiar with such consolidation elsewhere are well aware that it can proceed against the wishes of much or even most of the population.

If U.S. material support for the contras is virtually finished—dribbling "humanitarian" aid only whitewashes the end—the United States must decide whether and how it should help obtain the best possible nonmilitary settlement. There are several outstanding questions. What further democratization guarantees might be obtained; what recourse is available if the Sandinistas renege on such pledges? Should a U.S.-Nicaraguan or regional security accord be negotiated? What Soviet and Cuban commitments should be sought that would shore up any such accord? These measures fall under the broad heading of "containment plus internal provisions"—perhaps a second-best solution compared to the initial goals of the Reagan Administration, but probably the best one left.

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George McGovern

THE 1988 ELECTION: U.S. FOREIGN POLICY AT A WATERSHED

As we approach the 1988 election, we may be at the end of an era in American foreign policy. Since World War II the driving force behind our policy has been anticommunism, accompanied by containment of the Soviet Union with an ever more costly arms outlay. For more than four decades this policy has rested on the assumption of a bipolar world dominated by Washington and Moscow. New realities now demand fundamentally different policies if the United States is to remain an effective power.

This is not to suggest that communism is more acceptable today than it was forty years ago. Indeed, even the major communist states—the Soviet Union and China—are turning away from once accepted practices of communism. Without argument, the United States must maintain a sound national defense. But so clearly is communism neither the wave of the future nor the major challenge to American security that our anticommunist orientation has become irrelevant and obsolete. The two major powers—Washington and Moscow—are alike in this regard: they share an urgent need for new policies and priorities at home and abroad. Both must understand that the criteria of power and influence in the world are changing.

Ronald Reagan may represent the end of the line for the bipartisan cold war policy. The president seems to have taken, at least until recently, the most anachronistic aspects of that policy—an excessive reliance on arms, an obsessive anticommunism and an imperial, unilateral behavior at odds with our constitutional democracy—and carried them to the breaking point. However inadvertently, the Reagan Administration has dramatized the inadequacy of policies no longer relevant to the real world. Mr. Reagan has believed he was presiding over "morning in America"; we are about to experience the "morning after."

Unfortunately, the Reagan presidency has taken its toll also

Former Senator George McGovern was the Democratic Party's presidential candidate in 1972.

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on the intellectual and political acuity of the party in opposition. If the ambivalent foreign policy actions of Congress and early presidential campaign performances are indicative, the Administration's obsession with the rhetoric, symbols and trappings of military power has, with some notable exceptions, suffused even a Democratic Party which has traditionally brought a broader perspective to the concept of American national security. In what some have labeled the "geo-economic era," this focus is dangerously outmoded.

Jacques Attali, an economic historian and top adviser to French President François Mitterrand, wrote:

> A great transfer of power is taking place in the world economy. The center of economic power is shifting away from America. When the core nation loses economic hegemony, it has to adjust the global security responsibilities it assumed at the height of its dominance. This is what finally happened to Great Britain in 1967, but it took 20 years from the end of World War II for them to finally conclude that they couldn't afford troops east of Aden.

II

In this crucial election period and beyond, do we have the will and the wisdom to develop a more realistic foreign policy, backed by better management of our economy to avert the further weakening of our position in the world? Will we face the need to shift from an excessive reliance on military power to the political, economic and moral sources of power in an interdependent global economy? Do we understand that even a great and powerful nation can no longer function unilaterally without regard to friend or foe? In this bicentennial of our constitutional democracy, can we profit from the lessons of the Iran-contra scandal and recognize anew the time-tested wisdom of the Founders?

The current economic difficulties of the supposed superpowers serve only to underscore a long-standing truth. Since the late 1940s both powers have overemphasized military and ideological factors and underplayed economic and political opportunities. The painful paradox that now confronts both Washington and Moscow is that the more they spend on armaments, the weaker and more insecure they become. The larger the number of nuclear weapons each side targets on the other, the more certain it is that in the event of war, Americans and Russians would be the first to disappear from the planet. Meanwhile, heavy arms spending deprives the two countries of

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the resources needed to strengthen their economies, participate competitively in the international economy and enhance their leadership in the developing world.

The economic costs of a permanent war economy and an interventionist foreign policy have for years been a focus of "liberal" concern. But even the most ardent of American conservatives must now recognize that the dangerous decline of U.S. industries owes much to a major portion of our business and scientific talent having been absorbed in war production for a single buyer—the Pentagon—instead of meeting the growing economic competitiveness of the modern world.

Japan and Germany, the defeated military powers of World War II, are challenging the preeminent status of the erstwhile victors, not by competing with them militarily, but by recognizing that the real arena of world power is not war games but hardheaded business leadership. The most serious enemy of America is not Russian tanks and rockets, or the Nicaraguan government or Cuban leader Fidel Castro. Our enemies are the bankrupting arms race, our mounting foreign debt (after years as the world's greatest creditor), the unpayable debts of the Third World held by U.S. banks, our lack of competitiveness in world trade and our consequent inability to play a more influential and constructive role in Third World development.

Power in the future will be determined increasingly by economic, political and moral factors. The arms race and an excessively interventionist, unilateral foreign policy have weakened those fundamental sources of American power.

It is possible that American military might prevented a Russian takeover of Western Europe in the wake of World War II. At that time an American-led containment strategy seemed logical. But if a Soviet move across Europe was ever imminent, it was in the years when Europe was still devastated by war. That is when the Marshall Plan's economic help and the military power of the NATO shield made the most sense.

Today conditions in Europe, the United States, the Soviet Union and the rest of the world have changed drastically. Western Europe is now strong and prosperous. Its population, material resources, productivity and industrial strength all exceed that of the Soviet Union.

Not since the 1961 Berlin crisis has Moscow engaged in any serious provocation against Western Europe, and even that was an act of political and economic weakness. Paradoxically, the Soviets followed the most belligerent line in those years when

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the United States either had a nuclear monopoly or at least overwhelming superiority. But as Moscow has moved toward nuclear parity with Washington and increased its dealings on arms control, trade and cultural exchange, it has tended to favor a policy of accommodation with the West.

This tendency has reached an apex in the person of Mikhail Gorbachev, who now emphasizes that in the future Soviet foreign policy will be driven by domestic economic needs. He and other realists in the Kremlin seem far more interested in trading with Europe, encouraging joint economic ventures with European firms and mutually reducing nuclear weapons than in fighting Europeans on the battlefield or exchanging bombs and missiles with them from the skies.

Russians may be notoriously averse to admitting mistakes to the outside world, but it takes little reading between the lines of Mr. Gorbachev's domestic and international speeches to discern his recognition that the Soviet economy has been so warped by its focus on arms production that it is incapable of meeting the needs of its people for modern housing, industrial goods, productive agriculture and scientific-technical breakthroughs for its future development. Gorbachev has left little doubt that he knows his country cannot lift its standard of living so long as it is bogged down in an ever-escalating arms race with the United States and Europe.

The Soviet leader has also signaled his belief that big-power interventionism in the emerging Third World is a hazardous and self-defeating policy. The bitter and frustrating experience of the Russians for the last decade in Afghanistan was doubtless in Gorbachev's mind at the Communist Party Congress in February 1986, when he forcefully contended that "encouraging revolution from outside, and doubly so by military means, is futile and inadmissible." It does not take an expert Kremlinologist to see that Gorbachev is saying something new.

On the arms control front, Moscow seized the initiative in 1985 by announcing and implementing a unilateral ban on all nuclear weapons testing. At the arms control discussions in Reykjavik with President Reagan, the Soviet leader seemed willing to make or accept even the most sweeping proposals for the reduction or elimination of nuclear weapons. More recently, in signing with President Reagan the treaty that would eliminate intermediate-range nuclear weapons from Europe, Gorbachev agreed to unprecedented access to Soviet military production and basing facilities for on-site inspection. Arms

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control offers can be propaganda, but a breakthrough verification regime to monitor the total dismantlement of Soviet SS-20s means there is extraordinary substance here as well.

As we move to shape the American election issues of 1988, the key question is whether we can begin to define foreign and defense policies that are more relevant to the realities of today's world. Can we meet the energetic and forceful challenge of Mikhail Gorbachev's Russia with intelligence, courage and realism? Can we muster the will and wisdom to see that the issues of the future cannot be resolved by a bigger arms race and more military interventions in Central America, Africa or Asia? Can we put forward a new range of policies to end the waste of an obsolete arms race, reduce the shameful deficit that is weakening our economy and our position in the world, safeguard the physical environment that sustains life on our planet and invest our resources more wisely in strengthening our families and educating our children?

We cannot analyze with certainty the motivations and tendencies of the Russian leaders, nor can we anticipate every development in other parts of the globe. But I offer the following propositions for debate in the 1988 election campaign. They are, I believe, consistent with the realities of our time.

III

First, we should replace our obsolete cold-war policy with a concerted effort to identify mutual interests with the Russians—trade, arms reduction, joint environmental efforts, shared exploration of outer space and cooperative efforts in the fields of health, education and cultural exchange. In such trouble spots as the Iran-Iraq war, the Arab-Israeli conflict, Afghanistan and Nicaragua, we should seek out the possibilities of Soviet and American initiatives for settlement.

The current shipping problem in the Persian Gulf stemming from the Iran-Iraq war represents an ideal example of a challenge the two superpowers should meet cooperatively rather than confrontationally. Both Moscow and Washington have an interest in ending the war between Iran and Iraq. Neither Washington nor Moscow has any interest in disrupting the shipping of the Persian Gulf or spreading the Iran-Iraq war further into that area.

The Reagan Administration naïvely committed our flag and our fleet to the Kuwaitis as a knee-jerk reaction to information

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that the Russians had responded in a very limited way to Kuwait's request for protection of tankers. Clearly, the Administration was also moved by a desire to regain credibility squandered mindlessly through arms sales to Iran. It would have been far wiser, however, to make our policy judgment on this matter only after careful consultation with all of the Gulf states, with our NATO allies and Japan and, most important, after full consultation with Congress. Then, if all signs indicated the need to protect shipping, the United States might have joined in a multinational escort force in concert with our allies, the Russians and some of the Arab states—perhaps under the aegis of the United Nations.

The Arab-Israeli-Palestinian conflict is another prime candidate for energetic and sustained cooperation by the United States and the Soviet Union in seeking a practical and just solution. Such other regional problem areas as Central America, Afghanistan and Southeast Asia could also be appropriate matters for Soviet-American consultation. Serious initiatives to cooperate with Mr. Gorbachev might prove more productive than we have accustomed ourselves to expect.

Second, we should join the Soviets in a complete ban on all nuclear testing, press ahead on the mutual elimination of medium-range nuclear weapons from Europe as provided for by the recently signed treaty, and agree to continued compliance with the Anti-Ballistic Missile Treaty—which means confining the Strategic Defense Initiative to research—in return for a mutual reduction of 50 percent in strategic nuclear weapons. Gorbachev has signaled his willingness to negotiate such a formula.

The major sticking point on this promising agenda for arms reduction is Mr. Reagan's insistence on the right to engage not only in research, but also testing and development of the SDI system—a position Mr. Gorbachev rejects. Most members of Congress and most arms control authorities, including those who negotiated the 1972 ABM treaty—as well as the Russians—believe that the 1972 treaty precludes anything beyond research and laboratory testing of missile defense systems. A major portion of the scientific and arms control community also believes that Mr. Reagan's concept of a kind of protective astrodome to make America invulnerable to nuclear attack is a destabilizing, frightfully costly fantasy. Former Under Secretary of State George Ball—a man of considerable experience in international affairs and arms issues—has described the so-

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called Star Wars system as "a fraud," but a very costly fraud that could consume upward of a trillion dollars.

SDI would depend almost entirely on computers and would require, by some estimates, ten million lines of computerized programming to make the system operable. Given the inevitable margin of error and malfunctioning in such an elaborate system, the danger is enormous that it might involve us in a nuclear exchange by mistakes in programming or interpretation. Given these concerns, would it not be better to move ahead on an agreement that will eliminate half of the missiles that Moscow now has targeted on us rather than living with Mr. Reagan's "dream" that we can some day build a shield that will make us safe in the event of nuclear war? I would urge that we confine work on SDI to research alone for a period of years while we proceed now with arms negotiations. As a practical matter, many technical questions must be resolved by research over the next few years before we can even speculate intelligently on whether it makes sense to go forward with SDI.

It has been argued by former Secretary of State Henry Kissinger and others that we are endangering the United States and Europe by eliminating intermediate-range nuclear weapons and cutting strategic nuclear weapons in half before dealing with conventional forces, where the Soviets are said to be relatively stronger. I would agree that we need to get the issue of conventional forces on the negotiating table, but this need not delay the next proposed step to reduce nuclear weapons as envisioned by Reagan and Gorbachev. Even with the 50-percent cuts called for in the tentative outline, each side would retain some 6,000 strategic nuclear weapons, including 4,900 ballistic missiles, with an average destructive capacity of 300,000 tons of TNT in each warhead. Since the only practical purpose of such weapons is to deter the other side from attacking, 6,000 nuclear monsters will serve the purpose as well as 12,000. Either force level is capable of eliminating most if not all of the life on our planet. Certainly we are no safer today with double the number of weapons targeted on our cities than we would be after the proposed second-stage agreement on strategic arms reductions.

Reagan and Gorbachev have both indicated their awareness of the need to move more purposefully on conventional force negotiations. Over the next decade, in close consultation with our allies, we should seek to negotiate with the Soviets mutual reductions in conventional forces that would enable us to draw

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down our 300,000 troops in Europe as well as the 40,000 now in South Korea. Obviously, the timetable for these withdrawals should depend on the scale and timing of Soviet reductions in troops, tanks and conventional units. Careful mutual arms control reductions, both nuclear and conventional, with proper verification can lessen tensions and fears. In turn, these steps also reduce the risk of war—which, of course, is the best defense of all in the nuclear age.

Third, if we can improve relations with the Soviets, reduce nuclear arms and draw down our forces abroad, we will have set the stage for a major reduction in U.S. military spending. We are now devoting 60 percent of our military budget to the projection of our power abroad and the defense of other countries, most notably our NATO allies and Japan, against a supposed Soviet or Chinese threat. But the countries we are defending are prosperous and moving steadily into a stronger economic and political relationship with the Russians and the Chinese. Does it make sense for the United States to pay over half the cost of NATO when the European states are as prosperous as we are and engage in more trade and joint ventures with the Soviets than we do?

It is now costing the United States approximately $150 billion annually to provide for the defense of Western Europe and Japan. This is roughly the dimension of our current annual fiscal deficit. For many years we have devoted a much higher percentage of our budget and our GNP to defense than have Japan and the nations of Western Europe. These countries are now pressing us hard to reduce our deficit in the interest of a more stable world economy. One way to do that is for us to cease carrying such a disproportionate share of the collective defense burden. We would be a stronger and a more prosperous nation with greater influence in the world if we shifted over the next ten years at least 30 percent of our military spending into deficit reduction, education, family support, environmental protection, rebuilding our public infrastructure and our railways, assisting our family farmers, upgrading the training and productivity of our industrial workers and strengthening the development of the Third World.

Fourth, while standing clear of Third World military struggles, unless conditions virtually demand our military involvement, we should support in every other reasonable manner democratic centrist forces in developing countries that are caught in power struggles between the hard right and the hard

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left. American political party professionals, labor union organizers, social activists, religious and public interest groups—all of these and more are needed to train, advise and organize those in the developing countries who seek democracy and justice. We should not hesitate to affirm abroad our active commitment to human rights and democratic ideals. Our 200-year-old experiment with constitutional democracy is the kind of good news we need to proclaim in the developing world.

The time is long overdue for us to recognize that even those countries in the Third World which happen to displease us ideologically are not beyond constructive American influence if we exercise that influence intelligently. We seriously negate that possibility, however, by following too rigidly a policy of economic and diplomatic boycott. It has long seemed to me that our policy of trying to isolate Cuba (to say nothing of earlier covert hit-and-run attacks and assassination attempts against Castro) has been ineffective and self-defeating. The quick decision in the opening stage of the Castro revolution to apply an economic and diplomatic embargo has inadvertently paralyzed American influence in Cuba and maximized Soviet power and influence there.

The same arguments can be made with reference to Vietnam and Angola. More than a decade has passed since the end of our bitter involvement in Vietnam. If that long and costly intervention was a mistake, is it not also a mistake to delay further the process of reconciliation and reconstruction of the country where we not only suffered such grievous losses, but where our arms took such a frightful toll of Vietnamese life and property? In a lengthy conversation with Premier Pham Van Dong in 1976, I was told that Hanoi desperately wanted American diplomatic recognition plus economic, medical and food assistance. The Vietnamese leader also made clear an eagerness to trade with the United States and even to open offshore oil resources to American development.

I found much the same kind of eagerness for U.S. recognition and cooperation in Angola during a visit there in 1978.

Why is it considered prudent and wise for us to carry on diplomatic and trade relations with the communist giants, China and the Soviet Union, while we boycott the little communist states—Cuba, Vietnam and Angola? Has the time not come to end this curious double standard?

There may be instances where it makes sense to employ economic and diplomatic boycotts, but on the record those

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methods no longer serve our best interests in dealing with the small revolutionary communist states. We have followed a much wiser and more productive course with communist Yugoslavia, notwithstanding the fact that it is in closer proximity to Soviet power than Angola, Vietnam or Cuba. Obviously there are other factors and differences involved, but our long-term approach to Yugoslavia may suggest a more productive approach to other communist states than the one we are now pursuing.

We are also not without influence in some of the Third World countries that are ruled by rightist governments. However belatedly, the Reagan Administration demonstrated that such right-wing leaders as Ferdinand Marcos in the Philippines and Jean-Claude Duvalier in Haiti were subject to local political action combined with American support and encouragement. The Pinochet regime in Chile is a classic example of a rightist government with a bad record on human rights that ought to feel constant diplomatic, moral and economic pressure from the United States.

In the Middle East, the United States understandably feels a special obligation to back the state of Israel, which we helped to create in the wake of the terrifying holocaust of Adolf Hitler's Nazi regime. But here as elsewhere we would be well advised to heed George Washington's warning against "inveterate antipathies" and "passionate attachments." The Arabs after all did not create the holocaust. They are not our enemies. Indeed, they actively seek our friendship and cooperation. Nor does it follow that Israeli objectives are synonymous with ours, including their 1982 invasion of Lebanon, their preference for Iran over Iraq, their support for the South African government and their hostility to the concept of a Palestinian homeland. We should continue to support Israel, but the time is long overdue for America to stand for self-determination for Palestinians as well as Israelis. Instead of closing the Palestinian Information Office in Washington, we should be talking to the Palestinians. Instead of foot-dragging on the proposal for an international conference on Middle East issues, we should be leading the way for such a conference.

It is possible that we may be faced with circumstances that leave us no honorable course except military intervention. I believe that during the genocidal campaign of the crazed Pol Pot against his own Cambodian people in the late 1970s the United States should have taken the lead at the United Nations

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in promoting a strong multilateral intervention. Perhaps as many as two million innocent Cambodians were slaughtered in this totally irrational and barbarous orgy. Ironically, it was the unilateral intervention of the hated Vietnamese that finally halted the mass killing of Cambodians by their own government.

The bankruptcy of a policy that continues to view the Third World through the prism of an East-West cold war competition is dramatized by the current U.S. stance on Cambodia. The United States now recognizes and supports at the United Nations Pol Pot and his allies, instead of the Vietnamese-backed regime in Phnom Penh—certainly not on the merits, but on the basis of our opposition to Hanoi and Moscow.

There may be other instances in the Third World where we have no acceptable alternative except armed intervention. But for the most part, our power can best be demonstrated with nonmilitary means. We should think of armed intervention as a costly and high-risk measure of last resort and one that we should make every effort to carry out in concert with other nations—not unilaterally.

Improved relations with the Soviet Union and other communist states and substantial mutual arms reductions would not only help in getting our budget and trade deficits under control; they would also enable us to cooperate better with our standing partners in stabilizing the world trade system. We would be in a much stronger position to work with nations such as Mexico, Argentina, Brazil, Egypt and Israel in getting their debts under control and their economies in better shape. Instead of being the major supplier of arms to the Third World, we should seek to strengthen its economic health, not only because this is morally right but because a healthy Third World will be our major market in the future.

Fifth, there are two additional global concerns that lend themselves especially to American political, scientific and technical leadership: halting the degradation of the physical environment and ending human hunger. In concert with other nations and the U.N. system, we should lead the way in halting the pollution of the oceans and waterways, the erosion of the soil, the loss of forests, the contamination of the air and the disruption of the life-preserving ozone. The alarming destruction of our planet by environmental deterioration may constitute a more serious threat to humanity than nuclear weapons. An international effort led by the United States to protect the

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world's environment could well be our first line of defense and national security.

Closely related to environmental concerns is the urgent need to win the struggle against hunger. Here again the United States is the best-endowed nation on earth to lead the effort to end starvation and malnutrition. We have the technical capability, the agricultural abundance and the shipping to lead the way to a world free from hunger. A more imaginative use of our surplus food in the short term and a greater effort to improve the agriculture of the developing world in the long term is the kind of internationalism that will give new force and respect to America's role in the world.

These environmental and hunger concerns present opportunities for closer cooperation with our allies, the Soviet Union and the developing world.

Sixth, it seems increasingly clear that our national and international concerns are deeply intertwined. There is, for example, little hope of ending our huge annual deficits unless we can bring the arms race under control. Nor can we correct the alarming U.S. trade deficit and the decline of some of our industries, including agriculture, that are dependent on exports unless the Third World, as the largest potential market for American goods, is able to improve its economic health. A further illustration of our inextricable involvement with Third World problems is the scourge of destructive drugs flowing into the United States. The peasants in such poor countries as Bolivia, Peru, Mexico and Colombia survive in considerable part by selling cocaine and marijuana to the American market. Equally poor farmers in Southeast Asia and Turkey supply us with heroin. In short, the poverty, underdevelopment and desperation measures of the Third World spill over into America to feed the most destructive social evil in our society.

The economic, political, environmental and military challenges around the globe demand international cooperation rather than unilateral action by single nations. For all practical purposes, isolationism and unilateralism are inadequate foreign policies in the world of today and tomorrow.

This means, I believe, that we must make increasing use of the United Nations system as a vital foreign policy vehicle. No American administration since World War II has given the United Nations the preeminent position it should have in the policies of a major world power. The Reagan Administration has been especially weak if not outright hostile in its attitude

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toward the United Nations. It is embarrassing that the current delinquency of the United States in paying its assessed contribution to the United Nations has made it necessary for smaller countries including Canada to pay their future assessments in advance so that the United Nations can meet its payroll obligations.

In our efforts to build better relationships with the Soviet Union and China, to address the massive problems of debt, development and hunger in the Third World, to meet the dangers of terrorism and the conflicts of the Middle East, to respond to the new scourge of AIDS—all of these and numerous other concerns challenge us to make greater use of the forum and the machinery of the United Nations. The U.N. Development Progam and the U.N. World Health Organization have mounted a global effort against AIDS that is deserving of full U.S. support and participation. It should be noted that it was under the direction of the World Health Organization that smallpox was virtually ended worldwide.

IV

If bringing our relationship with the global community including Moscow up to date in the light of today's realities is the most urgent foreign policy challenge of 1988, the second and equally important challenge is squaring the conduct and substance of American policy with our historical national values. In the bicentennial of our Constitution, it is important that we renew our commitment to the vision of the Framers who drafted the Declaration of Independence and the Constitution.

We have painfully learned again from the Iran-contra fiasco that secretive, illegal or antidemocratic operations abroad are not compatible with the values and needs of our democracy. If I were permitted just one line of advice to the president elected in 1988 it would be: "Heed the Constitution." The only oath we require of our president is that he "preserve, protect and defend the Constitution of the United States" and "take care that the laws be faithfully executed."

Unfortunately, several of our presidents since the end of World War II have violated their inaugural oath. These violations were invariably defended in the name of national security. Most were schemes hatched in secret by a handful of people around the president. Most were not only illegal, but also mistaken ideas that embarrassed the nation.

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Congress should act to do what former President Harry Truman recommended in his later years—limit the CIA and other intelligence or security agencies of the United States strictly to the gathering of intelligence. Setting up mercenary armies, mining international harbors, assassinating local officials, overturning governments, using arms dealers to circumvent the laws and our announced foreign policy—all such activities should be terminated by law. This will not, of course, stop a president determined to break the law, but it will, at least, make such actions plainly illegal. That is a step toward constitutional government and a revival of credibility and respect for our standing in the world.

Behind our covert activities of the past four decades has been the worship of "national security" and "the power of the presidency"—notions used to justify an interventionist foreign policy and a permanent war economy. But these concepts have an authoritarian quality that is alien to the founding ideals of our constitutional democracy.

At the heart of our Constitution is the separation of powers—the system of checks and balances. The president is the commander-in-chief of the armed forces and the conductor of foreign policy. But he carries out these activities under definite constitutional checks that give the Congress a strong role in the authorization and shaping of both military and foreign policy. It is the Congress which controls the granting of funds that determine the scope and substance of foreign policy and the size and mission of the armed forces. It is the Congress which declares war and determines whether and how American forces become involved abroad, and how long and under what conditions such interventions are continued. The Senate has a special responsibility to "advise and consent" on American treaty obligations and the confirmation of diplomatic officials, which means that its role in shaping our international obligations and our diplomacy was meant not to be ancillary but integral. The Framers of the Constitution sought to avoid an imperial presidency that would be free to direct the foreign policy and the armed forces unchecked by the people's elected representatives in the Congress.

It was not simply that the Framers distrusted unchecked power, which they clearly did; they also feared an interventionist foreign policy and large, permanent military forces. Washington, Jefferson and Madison were all willing to use military power when they saw no other reasonable alternative. But they

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all opposed the creation of standing military forces that went beyond emergency requirements, and they all despised an interventionist foreign policy that needlessly embroiled the United States abroad. Jefferson called for "peace, commerce, and honest friendship with all nations, entangling alliances with none." Washington, I repeat, warned against either "inveterate antipathies" or "passionate attachments" to other nations.

The Constitution that was hammered out in Philadelphia in 1787 sought to prevent reckless interventionism and rampant militarism by deliberately tying the hands of the president so that he could not raise huge military forces or involve the nation in foreign expeditions without congressional approval and close executive-legislative cooperation. Today, the postwar results of failing to heed the noninterventionist precepts of the Founders are painfully on view in the new fields of white crosses in Arlington Cemetery and on the black marble wall of the Vietnam Memorial. As a former World War II bomber pilot, I lament that many of my countrymen were dispatched in causes far less worthy.

If we are to "intervene" abroad, let us do so primarily with our political, economic and moral strength. A prominent example is the case of South Africa, where the American position should be clear and unequivocal. There is no place for apartheid in the modern world. We should follow a policy of steadily tightening diplomatic and economic pressure on South Africa in concert with other nations which share our rejection of national racism.

For most of our 200-year course as a nation we have been well served by the wisdom of the constitutional Framers. We have seen that document as both a body of principles and a living experiment that has enabled us to meet new and changing circumstances. But especially since World War II we have drifted far from the essential wisdom of the Founders and the constitutional process they bequeathed. This has led us into a series of ill-advised, bloody interventions abroad, a self-defeating arms race, disruptive economic costs at home, and a steady decline of real security and international influence. We are at a watershed, requiring a change in direction. In 1988, as at the beginning of the American nation, we need to build a foreign policy that is consistent with both the procedures and the substance of a genuine constitutional democracy.

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V

If I may add a note of personal advice to the presidential contenders, I would warn them against making hasty pledges under campaign pressures that might hamper their capacity to make unfettered decisions in the White House. I blush when I think of a few of the commitments I made as the Democratic nominee in 1972, including a promise that if elected I would move the American embassy in Israel from Tel Aviv to Jerusalem. This might have pleased a few Israelis and a handful of American voters, but it would have been disastrous to our standing in the Arab world, seriously eroding our ability to serve as an "honest broker" of the Middle East conflict.

In 1960 Democratic nominee John Kennedy chided the incumbent Eisenhower Administration for not moving forcefully against Castro. Perhaps in this militant campaign rhetoric Kennedy, the candidate, was helping to set the trap for the Bay of Pigs fiasco that a few months later embarrassed Kennedy, the president. In 1968 candidate Richard Nixon implied that he had a plan to end the war in Vietnam. When the war dragged on for four more years, it produced a sense of betrayal that disillusioned millions of Americans. President Lyndon Johnson's pledge four years earlier that he was "not going to send American boys to do the job that Asian boys should be doing" was an earlier source of presidential credibility problems.

It is not necessary for presidential candidates to take a rigid stand on every one of the world's problems—especially those which carry domestic political lobbies demanding candidate commitments that are tempting to grasp but difficult to live with after the election. Indeed, a president's freedom of action is limited by the Constitution, by acts of Congress, by American public opinion and by the changing complexity of the global scene. Rather than glibly promising a neat solution to each of the foreign policy issues facing the country, a prudent presidential contender should pledge to seek basic policy objectives in consultation with the Congress and our allies, sometimes after negotiations with our rivals, but always within the spirit and the laws of our constitutional democracy. It is also still wise, I think, for an American president to form his final judgments and course of action "with a decent respect to the opinions of mankind."

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COMMENT AND CORRESPONDENCE

THE ROLE OF THE NATIONAL SECURITY ADVISER

To the Editor:

In your Winter 1987/88 issue, in an article entitled "The President and the Secretary of State," Theodore Sorensen alleges that Secretary of State Cyrus Vance "soon found National Security Adviser Zbigniew Brzezinski cabling ambassadors, initiating negotiations, briefing the press, pronouncing policy and giving the president inaccurate summaries of their discussions."

Given the tendentious thrust of Sorensen's assertions, I think the readers of *Foreign Affairs* might be interested to know that former President Carter discusses in his memoirs the roles played in his administration by the secretary of state and by myself. On pages 52–54, President Carter explains candidly why he came to rely on me for the performance of certain tasks, including occasional articulation of policy. With regard to the latter, Carter adds: "Almost without exception, Zbig had been speaking with my approval and in consonance with my established and known policy."

Let me also add that no negotiations were undertaken by me without the president's explicit direction and without the secretary of state's knowledge, and the same applies to any cables that were sent by me.

The most serious of Sorensen's charges is the unsubstantiated allegation that I gave the president "inaccurate summaries" of discussions with the secretary of state. This impugns my professional and personal integrity. To my knowledge, the president has never felt so, the secretary of state never complained to me to that effect, and neither did any of the other senior participants in the decision-making process whose views it was my responsibility to summarize to the president. In fact, for a number of months the current editor of *Foreign Affairs* was personally involved in helping me report to the president on some of the most difficult and controversial of our discussions, and I think that he also knows that Sorensen is flat wrong.

Foreign Affairs has been widely, and justly, admired for contributing to a serious discussion of truly important international issues. Ad hominem gossip should have no place in it.

ZBIGNIEW BRZEZINSKI
Center for Strategic and International Studies
Washington, D.C.

The author replies:

I have too high a regard for Zbigniew Brzezinski's integrity as a dedicated public servant to impugn it in any way. My article did not suggest that he acted without President Carter's authority or Secretary Vance's knowledge.

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Instead, illustrating the history of White House-State Department discord, I cited a number of criticisms and caustic comments that various secretaries of state and White House aides had made about each other over the years. Among these were the previously published concerns of Secretary Vance about certain of Mr. Brzezinski's activities, including occasional discussion summaries that were apparently at variance with the secretary's recollection or understanding.

In neither this nor any of the other examples cited from several administrations was I claiming firsthand knowledge validating or invalidating either party's complaints about the other. No doubt I could have made that clearer, and no doubt the parties involved, in their memoirs and interviews, will continue to add their own grist to the historical mill.

Mr. Brzezinski's letter is thus a welcome addition to this record. I have never questioned his good faith. I do continue to question the unwillingness of our last several presidents to define and allocate foreign affairs responsibilities more clearly.

THEODORE C. SORENSEN
New York, N.Y.

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Edited by Janis A. Kreslins

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CHRONOLOGY 1987

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IRAN-CONTRA AFFAIR

JAN. 5. Senate Intelligence Committee, 7–6, votes not to make public a 150-page report of the closed hearings it conducted on the Iran-contra affair in 12/86. NBC News 1/8 obtains first part of report, a chronology suggesting Director of Central Intelligence William Casey knew of the Administration's illegal diversion of profits from covert arms sales to Iran to the Nicaraguan contras shortly before a business associate, Roy Furmark, told him about it 10/86.

JAN. 9. White House releases text of President Ronald Reagan's 1/17/86 intelligence finding authorizing secret arms sales to Iran, along with a memo from former National Security Council aide Lt. Col. Oliver North urging him to sign it, and portraying the arms sales as a means to "achieve the strategic goal of a more moderate Iranian government." Former National Security Adviser Vice Adm. John Poindexter's handwritten note at bottom of finding indicates the president had not read document before signing.

JAN. 19. Second part of final draft of Senate Intelligence Committee report on Iran-contra affair appears in *The New York Times*; states that committee finds "no specific evidence" that President Reagan knew of the diversion of funds from arms sales to Iran to the contras.

— *The Washington Post* reports that the Reagan Administration had solicited aid for the contras from at least 6 countries in recent years—including Israel, Singapore, South Korea, Taiwan, Brunei and Saudi Arabia. Report asserts that Israel provided weapons to the contras as early as 1984, and the sultan of Brunei, Muda Hassanal Bolkiah, contributed $10 million which was deposited 8/19/86 in a Swiss bank account.

JAN. 27. President Reagan, in annual State of the Union address to Congress, asserts that the goals motivating secret sale of arms to Iran were worthy, but that serious "mistakes were made" in the effort. Reagan says his "one major regret" was that the attempt to improve relations with Iranian moderates and gain the release of the hostages in Lebanon did not work.

JAN. 29. Senate Intelligence Committee makes public its revised Iran-contra affair report, which disputes President Reagan's assertion that the main purpose of the arms sales was to establish a relationship with Iranian "moderates."

FEB. 1. White House confirms that President Reagan made periodic private notes containing references to Administration decision to sell arms to Iran. White House spokesman Marlin Fitzwater says 2/2 that Reagan has decided to share "relevant excerpts of his notes with congressional investigators."

FEB. 2. President Reagan announces resignation, effective 1/29, of Director of Central Intelligence William Casey, who entered hospital for brain tumor surgery 12/15/86. Deputy Director Robert Gates is nominated to succeed him.

FEB. 26. President's Special Review Board, known as the Tower Commission, releases its review of the National Security Council's involvement in the Iran-contra affair. (The commission is made up of former Senator John Tower, former Secretary of State Edmund Muskie and former National Security Adviser Brent Scowcroft). Report criticizes President Reagan's "personal management style"; charges he failed to "insist upon accountability and performance review" from NSC. Commission also assails top White House and NSC officials and Secretary of State George Shultz and Secretary of Defense Caspar Weinberger. Report makes no assessment of possible criminal activity and, while concluding that NSC repeatedly failed to follow own procedures for reviewing operations, recommends no major changes in law authorizing NSC.

FEB. 27. North files suit against Lawrence Walsh, special prosecutor in Iran-

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contra case, and Attorney General Edwin Meese, challenging constitutionality of federal law permitting appointment of a special prosecutor. Justice Department 3/5 appoints Walsh independent officer of the department to sidestep the challenge. Federal District Court Judge Barrington Parker 3/12 dismisses North's suit.

— White House Chief of Staff Donald Regan resigns and is replaced by former Senator Howard Baker.

MAR. 2. Robert Gates' nomination to head CIA is retracted after he comes under criticism during confirmation hearing for not making effort while deputy director to halt sale of arms to Iran.

MAR. 4. President Reagan, in a nationally televised speech, concedes that his policy toward Iran "deteriorated" into a trade of arms for hostages, and he accepts "full responsibility" for the affair. He says of trading arms for hostages: "it was a mistake."

APR. 29. Carl Channell pleads guilty to charges of conspiring to defraud government by raising tax-exempt funds to arm Nicaraguan rebels. Channell names North as a co-conspirator.

MAY 5. House and Senate committees investigating the Iran-contra affair open joint hearings. Retired Air Force Maj. Gen. Richard Secord, a private citizen, describes his recruitment by North in 1984 to organize air delivery of arms to the contras, says he was asked in 1985 to assist in arms sales to Iran. He testifies North used arms sales profits to pay US Drug Enforcement Agency (DEA) employees who were sent on a covert operation to track down American hostages in Lebanon. Secord testifies 5/6 that North told him President Reagan knew of diversion of Iran arms sales profits to the contras. (Reagan 5/7 calls Secord "misinformed.")

— William Casey dies of pneumonia.

MAY 11. Former National Security Adviser Robert McFarlane testifies before Iran-contra committees that, shortly after 1985 White House meeting between President Reagan and Saudi Arabian King Fahd, he learned Saudis would double their monthly contribution to the contras, to $2 million. (President Reagan 5/12 denies involvement in raising funds from Saudis.) McFarlane testifies Saudi contra contribution totaled $24.5 million. McFarlane says North assured him in 5/86 that diversion of Iran arms sales profits to the contras was authorized by the Administration. He testifies 5/13 he briefed president "frequently" on White House staff activities to aid the contras.

MAY 14. Gaston Sigur, former member of McFarlane's NSC staff, testifies he solicited $2-million contra contribution from Taiwan government. Robert Owen, self-described "foot soldier" in the NSC's secret contra aid campaign, testifies he delivered cash from North's office to contra leaders in 1984–85.

— White House issues statement that various laws passed by Congress to bar government aid to the contras, while related "to the power of Congress to control the federal purse," had not "contained any language which limited the constitutional and historical power of the president to set and implement foreign policy," and, by implication, to raise private money to support the contras.

MAY 15. President Reagan tells journalists that private efforts to aid the contras, even during 2 years when government aid was barred by Congress, were "my idea to begin with."

MAY 19. Contra leader Adolfo Calero testifies before Iran-contra committees that in early 1985 he gave North $90,000 in blank traveler's checks which North said he needed to finance DEA effort in Lebanon. Committees announce that they cannot trace all this money.

MAY 20. Retired Maj. Gen. John Singlaub, head of the World Anticommunist League, testifies before Iran-contra committees that Assistant Secretary of State for Inter-American Affairs Elliott Abrams agreed to assure governments of Taiwan and South Korea that Singlaub had Administration's approval to solicit aid for the contras. Three supporters of conservative causes, Ellen Garwood, William O'Boyle and Joseph Coors, testify 5/21 about their large donations to the contras.

MAY 27. Former Air Force Col. Robert Dutton tells Iran-contra committees how North directed secret aerial supply of munitions for the Nicaraguan rebels. (Dutton managed supply operation in Central America after going to work for Secord's Stanford Technology Trading Group 5/86.)

MAY 28. Former US Ambassador to Costa Rica Lewis Tambs testifies that during

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late 1985 and 1986 he was assigned by North to develop a "southern front" for the contras, and that Assistant Secretary Abrams was familiar with his activities.

JUNE 2. Assistant Secretary Abrams testifies before Iran-contra committees. Committee members accuse Abrams of misleading Senate Intelligence Committee 11/25/86 by not revealing plans for a contra "southern front." Abrams denies knowledge of southern front, denies he agreed endorse Singlaub's efforts to raise money for contras from Taiwan and South Korea.

JUNE 3. Albert Hakim, financial organizer of arms sales to Iran, testifies; says 6/5 that Secord twice told Iranian officials during secret talks in 1986 that US would "fight the Russians in Iran" in event of a Soviet invasion.

JUNE 4. Over objections of special prosecutor Walsh, the congressional committees vote to compel testimony from North by granting him limited immunity from prosecution.

JUNE 8. Bretton Sciaroni, counsel for President Reagan's Intelligence Oversight Board, testifies before Iran-contra committees that he drafted the legal opinion cited by President Reagan in maintaining that ban on government aid to the contras did not apply to NSC. Fawn Hall, North's secretary, testifies 6/8–9 that at North's request she altered sensitive documents and destroyed others, and that she smuggled still others off White House grounds 11/86, to protect North.

JUNE 23. Retired CIA officer Glenn Robinette tells committees that $13,900 from proceeds of Iran arms sales was used to set up a home security system for North. The committee also hears from Noel Koch, a former counterterrorism expert at the Pentagon, and Henry Gaffney, director of the Defense Security Agency, who testify together about technical aspects of the Hawk and TOW antiaircraft missiles that were sent to Iran. They also testify that Secretary of Defense Weinberger opposed the arms sales.

JUNE 24. Former CIA general counsel Stanley Sporkin testifies before the Iran-contra committees that he drafted 2 intelligence findings, including one signed by President Reagan 1/17/86 authorizing NSC to conduct arms sales to Iran. The finding held that notification of Congress could be legally deferred.

JUNE 25. Assistant Attorney General Charles Cooper describes 11/20/86 meeting at which Casey, North and Poindexter prepared false congressional testimony, with which Casey hoped to conceal US role in shipping Hawk missiles to Iran. Cooper also describes Attorney General Meese's conduct of Justice Department's investigation, and North's apparent surprise when presented with unsigned and undated memo proposing diversion of Iran arms sales funds to the contras; says North asked if signed cover memo had been found. The committees also receive deposition from State Department legal counsel Abraham Sofaer, in which he says he objected to Casey's falsified testimony.

JULY 7. Lt. Col. North begins testimony before Iran-contra committees, says he never discussed with President Reagan the diversion of Iran arms sales profits to the contras, but that he prepared 5 memos to National Security Adviser Poindexter recommending the diversion, leaving space for the president's initialed approval. Testifies he began shredding documents relating to the operation, including 4 of the diversion memos, 10/86 and continued until his dismissal 12/86.

JULY 8. North testifies that idea to divert profits to the contras originated with arms sales middleman Manucher Ghorbanifar, that Poindexter approved diversion, that Casey was "very enthusiastic" about it.

JULY 10. North testifies that Casey planned to use funds from Iran-contra operation for a self-sustaining system of covert operations independent of congressional oversight and funding. Committee members deliver statements criticizing or defending North 7/13–14.

JULY 14. McFarlane testifies again before the Iran-contra committees to rebut North's testimony that all his activities were authorized by superiors. McFarlane says he did not know of plans for an "off-the-shelf" covert network.

JULY 15. Iran-contra committees hear testimony from Poindexter, who says he watched President Reagan sign 11/85 finding authorizing Iran arms sales, but that he destroyed the document after affair became public 11/86. Poindexter says he saw only one North memo seeking presidential approval for diversion of arms profits to the contras. Testifies he alone made decision to authorize diversion. He 7/17 admits praising North for misleading Congress about aid to the contras. Poindexter

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is sharply criticized 7/21 by committee members for his many memory lapses about important details.

JULY 23. Secretary of State Shultz appears before the Iran-contra committees, says his strong opposition to the operation provoked "battle royal" within Administration and that Casey, McFarlane and Poindexter lied to him and withheld information from President Reagan about Iran-contra scheme. Testifies that Reagan told him in 11/86 that he had been aware of the 11/85 shipment of arms to Iran.

JULY 28. Attorney General Meese defends his investigation of the scandal before the Iran-contra committees. Meese is criticized 7/29 for his 11/86 interviews with McFarlane, Regan, Vice President George Bush, Poindexter and Casey, during which Meese was unaccompanied by additional interviewers and took no notes. Meese defends himself against allegations his investigation allowed North time to destroy pertinent documents.

— Senator Patrick Leahy (D-Vt.) says he resigned 1/8 from the Senate Select Committee on Intelligence because he was "so angry at myself" for leaking a draft of the committee's Iran-contra report to an NBC reporter.

JULY 30. Former White House Chief of Staff Regan testifies he had no role in preparing falsified chronology of the operation 11/86, and that President Reagan was told all details of 11/85 arms shipment to Iran. Regan suggests First Lady Nancy Reagan forced his resignation because she felt he had "let Ronnie down."

JULY 31. Committees hear Defense Secretary Weinberger testify that he repeatedly tried to stop the arms sales to Iran, and was misled by Poindexter and others into believing he had stopped them. The joint public hearings of the Iran-contra committees close 8/3, with final statements made by the Democratic chairman and ranking Republican member of each committee.

AUG. 4. CIA agent Duane Clarridge, in closed testimony before the Iran-contra committees, some of which is made public 8/19, testifies Casey 1/84 approved plan whereby South Africa would provide funds to train and arm contras, but that plan was dropped shortly after the mining of Nicaraguan harbors aroused a storm of anti-CIA criticism in 4/84.

AUG. 7. President Reagan sends letter to leaders of House and Senate Intelligence committees in which he promises that, "in all but the most exceptional circumstances," the Administration will notify Congress of launching of covert operations within 2 working days. House Intelligence Committee Chairman Louis Stokes (D-Ohio) says letter will not deter him from seeking stricter covert action disclosure laws.

AUG. 12. President Reagan, in nationally televised address, says arms sales to Iran, which began as a diplomatic initiative, "went astray" and became effort to obtain release of American hostages in Lebanon. Reagan reaffirms he did not know of diversion of arms sales profits to the contras, and goes no further in accepting responsibility for the scandal than in earlier statements.

SEPT. 25. *U.S. News & World Report*, which has obtained galleys of a soon-to-be-published book, *Veil: The Secret Wars of the CIA, 1981–1987*, by reporter Bob Woodward, publishes some of book's claims, including one that Casey, on his deathbed 1/22, told the reporter that he knew of and approved diversion of arms sales profits to the contras all along. Woodward also reports CIA cooperated with Saudi Arabia in 3/85 attempt to assassinate Sheik Mohammed Hussein Fadlallah, head of Arab terrorist organization Hezbollah (Party of God), and that in the attempt a car bomb was exploded, missing its target but killing 80 bystanders in Beirut.

NOV. 18. House and Senate committees investigating Iran-contra affair release final report, which says committees were unable to ascertain precise role of President Reagan in the scandal, because of his assistants' shredding of documents, but that "if the President did not know what his national security advisers were doing, he should have." Committees criticize North, Poindexter, McFarlane and especially Casey, whom they say "subverted" the democratic process, and Meese, whose investigation of the affair they fault. Report states that, of $16 million in profits earned by the secret sales of arms to Iran, only about $3.8 million ever reached the contras, with more than $4.4 million of the remainder retained as commissions by Secord and Hakim. The committees report that $10 million was raised through Channell's network, but that only $4.5 million of this was spent on the contras, including $1 million for political advertising and lobbying. Report suggests Congress

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receive prior notice of all but the most exceptional of covert operations, for which delays of up to 48 hours are acceptable. Also suggests NSC refrain from involvement in covert operations. Minority report signed by 2 Republican senators and 6 Republican representatives, leaked to the press 11/17, charges that the majority's findings are politically biased.

DEC. 17. Congressional Iran-contra committees make public newly discovered 2/86 memo from Vice Adm. Poindexter, describing Vice President Bush as being "solid" in support for arms sales to Iran.

THE UNITED STATES
(See also country, regional and topic entries.)

JAN. 6. President Reagan sends Congress $1-trillion budget for fiscal year 1988, proposing sharp cuts in agricultural price supports and student loans, curbs on Medicare and Medicaid increases, and increases in spending on the military, international affairs, the space program, AIDS research and salaries of top-level government officials.

— The 100th Congress convenes; Democrats control both houses for first time in Reagan presidency. The new Senate majority leader is Robert Byrd (D-W.Va.) and the new speaker of the House is James Wright (D-Tex.).

JAN. 19. Immigration and Naturalization Service announces that employers must verify citizenship of all new employees within 24 hours of hiring. Regulation comes in response to 11/86 immigration control law, which grants legal status to illegal aliens who have lived in US since before 1/1/82. The amnesty goes into effect 5/5.

JAN. 21. Senate Republican Caucus chooses conservative Senator Jesse Helms (R-N.C.) to be ranking Republican on the Foreign Relations Committee on the basis of seniority, declining the bid of previous chairman Richard Lugar (R-Ind.).

JAN. 27. President Reagan, in State of the Union address, reaffirms commitment to the Strategic Defense Initiative (SDI), promises a new "welfare strategy" to permit states and localities more control and flexibility, suggests new insurance program for catastrophic illness, pledges to submit legislation designed to improve American world trade competitiveness, and reiterates support for Nicaraguan contras.

FEB. 3. US conducts first underground nuclear test of 1987.

FEB. 6. Senator Sam Nunn (D-Ga.), chairman of the Armed Services Committee, warns in letter to President Reagan that Administration will provoke a "constitutional crisis" if it adopts, without extensive consultation with Congress, a "broad interpretation" of the 1972 Anti-Ballistic Missile Treaty to allow testing and deployment of SDI components. Nunn 3/11 charges that Administration has misrepresented the 1972 Senate deliberations on ABM treaty to support its broad interpretation.

FEB. 11. A Titan 3-B rocket is successfully launched from Vandenberg Air Force Base in California: first successful launching of a Titan since one exploded after liftoff 4/86.

FEB. 12. US, Canada, Japan and 11-nation European Space Agency announce "their intention to cooperate on the basis of genuine partnership" to operate a space station in the mid-1990s.

FEB. 24. Department of Defense announces that Gen. Bernard Rogers will retire in June as SACEUR, to be replaced as commander of US forces in Europe by Gen. John Galvin, who currently heads US forces stationed in Latin America. Galvin is appointed SACEUR 4/26.

MAR. 3. President Reagan announces nomination of William Webster, currently director of the Federal Bureau of Investigation, as director of Central Intelligence. Webster 5/19 wins Senate confirmation, 94–1.

MAR. 4. Jonathan Jay Pollard, former civilian navy intelligence analyst who pleaded guilty 6/86 to spying for Israel, is sentenced to life in prison in a Washington, DC, district court.

— House of Representatives, 230–194, votes to suspend further aid to the Nicaraguan rebels until President Reagan accounts for how money provided so far by Congress and private donors has been spent. Senate 5/18 rejects similar proposal, 52–48.

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APR. 9. House of Representatives rejects President Reagan's proposed FY 1988 budget, 389–7; approves its own proposed budget, calling for increased taxes and cuts in defense spending, 230–192.

APR. 19. President Reagan nominates Frank Gaffney, deputy to Assistant Secretary of Defense for International Security Policy Richard Perle, to succeed Perle, who had submitted his resignation 3/12.

APR. 23. A panel of leading physicists from the American Physical Society reports that it would take a decade or more of intensive research to determine whether a full-scale SDI shield would be attainable.

APR. 25. An estimated 100,000 people protest in Washington, DC, against US policies in Central America and South Africa.

APR. 30. An omnibus trade bill passes House of Representatives 290–137; bill contains Gephardt Amendment which would mandate US retaliation against nations whose trade surpluses are deemed excessive.

MAY 3. *The Miami Herald* reports that Gary Hart, the Democratic Party's leading presidential candidate, spent much of the previous weekend in a Washington townhouse with a Miami woman, Donna Rice. Hart withdraws from presidential race 5/8.

MAY 7. Senate, 56–42, passes a trillion-dollar budget for FY 1988 that avoids military spending cuts, but only if President Reagan accepts $18.3 billion in new taxes.

JUNE 2. President Reagan announces that Federal Reserve Board Chairman Paul Volcker has decided not to request reappointment to a 3rd 4-year term. Reagan appoints Alan Greenspan to succeed Volcker. Senate 8/3 confirms Greenspan, 91–2.

JUNE 16. House of Representatives, 415–1, votes to require State Department to seek compensation from Japan's Toshiba Corporation and Norwegian company Kongsberg Vaapenfabrikk, which sold sophisticated propeller-milling equipment to the Soviet Union. Senate 6/30 votes 92–5 to attach an import ban on the companies' products to its version of the omnibus trade bill. Senate 7/21 approves its trade bill, 71–27.

JUNE 18. A House-Senate conference committee approves a compromise FY 1988 budget allowing an increase in military spending only if the president accepts $19.3 billion in tax increases. Without the tax increases, military spending would fall slightly from its FY 1987 level.

JUNE 26. Supreme Court Justice Lewis Powell announces his retirement, citing his age and health concerns. President Reagan 7/1 nominates conservative U.S. Court of Appeals Judge Robert Bork to replace him.

JULY 30. Director of the Arms Control and Disarmament Agency Kenneth Adelman announces his resignation, effective 10/87.

AUG. 14. Philip Habib resigns as special envoy to Central America.

AUG. 23. House Armed Services Committee issues report on the MX missile program critical of mismanagement and delays in the program, questionable test results and evidence of poor workmanship.

SEPT. 10. Pope John Paul II begins 10-day tour of US.

SEPT. 15. Senate Judiciary Committee begins hearings on nomination of Robert Bork to the Supreme Court; Bork's moderate positions are challenged 9/17 by Senator Patrick Leahy (D-Vt.) as "confirmation conversions." Bork concludes testimony 9/19; other witnesses appear 9/21–30. President Reagan 9/25 accuses opponents of Bork's nomination of making "unfair and unfounded attacks."

SEPT. 18. Secretary of Defense Caspar Weinberger approves the testing of SDI ground-based sensors, space-based and ground-launched interceptor missiles. A 10/21 Senate Foreign Relations Committee report warns Administration against unilateral reinterpretation of ABM treaty as allowing SDI testing.

SEPT. 22. New deficit-reduction mechanism directing Office of Management and Budget to make 10% across-the-board federal spending cuts unless Congress and president agree by 11/20 on $23 billion in alternate reductions, is approved, 230–176, by House; Senate 9/23 approves measure, 64–34; President Reagan signs it 9/29.

SEPT. 23. House of Representatives approves $3.5 million in nonlethal aid to the Nicaraguan contras, attaching it to a stopgap spending bill; Senate passes the measure 9/25; president signs 9/30.

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OCT. 1. FY 1988 begins, with no federal budget appropriations yet approved by Congress and Administration.

OCT. 6. Senate Judiciary Committee, 9–5, votes to recommend rejection of nomination of Robert Bork to Supreme Court. Senate 10/23 rejects Bork's nomination, 58–42.

OCT. 15. The Soviet Union offers to repay all of its $245-million debt to the UN. US promises 11/23 to repay at least $90 million it owes UN, to forestall a budget crisis.

OCT. 22. President Reagan announces he will enter negotiations with Congress to reduce federal budget deficit, prompted by 10/19 stock market crash. Congressional leaders meet with president 10/26; formal negotiations get under way 10/27.

OCT. 29. President Reagan nominates Federal Appeals Court Judge Douglas Ginsburg to Supreme Court, describing him as a law-and-order judge; Ginsburg admits 11/5 that he smoked marijuana in 1970s as law school professor; Ginsburg withdraws from consideration 11/7. President Reagan 11/11 nominates Judge Anthony Kennedy of the Ninth Circuit Court of Appeals in California to fill Supreme Court position.

NOV. 5. Defense Secretary Weinberger resigns, effective on confirmation of successor. President Reagan nominates National Security Adviser Frank Carlucci to succeed Weinberger; names Carlucci's deputy, Lt. Gen. Colin Powell, to post of national security adviser. Carlucci is confirmed 11/20. Unconfirmed Assistant Secretary of Defense for International Security Policy Frank Gaffney resigns 11/20 to allow Carlucci to name assistant secretary.

NOV. 20. Administration and congressional negotiators announce federal budget reduction agreement, calling for $9 billion in unspecified tax measures, $6.6 billion in domestic spending cuts and $5 billion in military spending cuts. The package foresees reductions of $30 billion in FY 1988 and $46 billion in FY 1989.

— US and Cuba announce agreement calling for Cuba to repatriate over 2,000 "undesirable" immigrants to US; US agrees to accept Cuban political prisoners and 20,000 Cuban immigrants annually. Cuban detainees awaiting deportation take over detention center in Oakdale, La., and, 11/24, a federal prison in Atlanta. Government negotiators and inmate representatives reach agreements to end sieges 11/26 in Oakdale and 12/4 in Atlanta, providing for individual reviews of detainees' cases.

DEC. 15. Gary Hart reenters race for Democratic nomination for presidency.

DEC. 22. Congress passes $17.6 billion deficit-reduction bill, including $9 billion in new taxes, and a $600 billion catch-all appropriations bill providing $8.1 million in nonlethal aid to the Nicaraguan contras. President Reagan signs the bills 12/22.

DEC. 29. NASA announces unspecified delay in planned 6/2/88 launching of the 1st space shuttle since 1/86 *Challenger* disaster, after discovering malfunction of rocket-nozzle component in otherwise successful 12/23 booster-rocket test firing.

THE UNITED STATES AND THE WORLD ECONOMY

JAN. 21. US Treasury Secretary James Baker and Japanese Finance Minister Kiichi Miyazawa meet, issue a statement that currency markets "require monitoring." Statement regarded as inadequate response to recent rapid fall of the dollar against the yen; US currency drops nearly 3 yen in value almost immediately.

JAN. 27. Japan announces extension of its voluntary curb on automobile exports to US for 7th year, through 3/7/88. Exports to be held to 2.3 million units, same level as set for the previous 2 years.

JAN. 29. Reagan Administration rescinds plans to impose 200% import duty on European Community agricultural products after winning concessions from the EC; agreement compensates US for Spain's and Portugal's higher tariffs on US corn and sorghum, imposed when they joined EC in 1986.

FEB. 2. International Monetary Fund (IMF) approves $825-million loan for Nigeria, key element in Nigerian effort to reschedule over $20 billion in foreign debt.

FEB. 20. Brazil announces suspension of interest payments on its $81-billion debt to foreign banks, to protect nation's hard currency reserves.

FEB. 22. Finance ministers from US, Japan, West Germany, Britain, France and Canada meet at the Louvre in Paris, agree to seek stable US dollar; US agrees to

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stop trying to "talk down" dollar, Japan and West Germany promise to stimulate their economies; all 6 countries pledge to pour money into foreign exchange markets if dollar continues slide, leave vague the details of timing and amount of support.

MAR. 16. Japan's Fujitsu Ltd. and French corporation Schlumberger Ltd. cancel agreement for Fujitsu to buy 80% of American Schlumberger subsidiary, Fairchild Semiconductor Corp., after proposed merger arouses fierce US government opposition.

MAR. 20. Mexico and some 360 of its creditor banks sign agreement providing up to $7.7 billion in loans to Mexico, described as the "largest ever put together on the international capital markets."

MAR. 24. South African Finance Minister Barend Du Plessis announces agreement with foreign creditor banks for repayment of $13 billion in short-term debts which South Africa froze in 1986.

MAR. 27. President Reagan announces 100% tariff on imports of Japanese electronic products worth over $300 million annually, in retaliation for Tokyo's failure to comply with 7/86 accord committing Japan to open markets to American semiconductors and stop selling its own semiconductors abroad below cost. Tariff goes into effect 4/17.

— Philippine Finance Minister Jaime Ongpin announces agreement to restructure interest payments on $13.2 billion owed by the Philippines to foreign banks.

APR. 1. Three major U.S banks (BankAmerica Corp., J. P. Morgan & Co., and Manufacturers Hanover Corp.) place $4.6 billion in loans to Brazil on nonaccrual status; means banks will only record interest payments when actually received. US federal regulators 4/1 downgrade Brazil's credit standing to substandard.

APR. 30. Japanese Prime Minister Yasuhiro Nakasone tells President Reagan in Washington that Bank of Japan will guide interest rates lower, attempt to spur growth of the Japanese economy and address Japan's $58-billion trade surplus with US.

MAY 19. Citicorp, largest US banking company, says it will increase reserves by $3 billion to cover possible loan losses. Move indicates acknowledgment that much of Citicorp's $14.7 billion in Third World loans will not be repaid. Citicorp's move is quickly followed by other major US banks.

JUNE 3. World Bank suspends loans to Peru because of overdue debt payments; the Inter-American Development Bank follows suit 6/4.

JUNE 8. President Reagan, in Venice for summit of leading Western nations and Japan, announces partial lifting of 4/17 tariff on Japanese electronic goods; move is characterized by Chief of Staff Howard Baker as "incentive" to reward Japan for reducing objectionable trade practices.

JUNE 14. Ford Motor Co. confirms it plans to pull out of Samcor, a South African manufacturing concern 42% controlled by Ford. Samcor announces negotiations to transfer major share of assets to a trust for its workers, 70% of whom are black. Citicorp announces 6/16 that it has decided to sell its subsidiary in South Africa, says withdrawal is for business reasons.

JUNE 28. OPEC, meeting in Vienna, agrees to limit its combined daily oil production to 16.6 million bbl. through 1987, slightly above current daily ceiling of 15.8 million bbl. Iran, Libya and Algeria wanted lower production level, to command higher prices.

AUG. 3. Seventh quadrennial session of the United Nations Conference on Trade and Development (UNCTAD), which convened 7/9, concludes in Geneva; the industrialized nations promise to sustain their business activity in order to keep the world economy healthy; the developing countries agree to place greater emphasis on supporting private enterprise.

AUG. 17. Creditor group of 140 Western banks declares North Korea in formal default on $770 million in loans; North Korea and banks 9/16 reach a rescheduling agreement.

SEPT. 18. Venezuela reaches final agreement with its bank creditors to reschedule $20.34 billion of its $35-billion foreign debt.

SEPT. 24. Finance ministers of Brazil, Argentina and Mexico meet in Washington, DC, and agree to form a "Group of Three" to work together on common foreign debt and trade problems; ministers indicate that they have no intention of joining together to confront their international creditors.

SEPT. 29. IMF and World Bank convene annual joint meeting in Washington,

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DC; agree to increase World Bank capitalization. President Reagan, in speech opening the meeting, calls on West Germany and Japan to "find the political gumption" to stimulate their economies.

OCT. 3. US and Canada reach agreement on comprehensive trade pact, subject to approval by the US Congress and the Canadian Parliament. The talks, which had broken off 9/23, were resuscitated 9/28 by the personal intervention of US Secretary of the Treasury Baker. Centerpiece of accord is provision for elimination of all bilateral tariffs over 10-year period beginning 1/1/89. US agrees to include provision for a binding arbitration panel to settle bilateral disputes.

OCT. 16. US stock market's Dow Jones Industrial Average posts record one-day drop of 108.35 points, falling a total of 261.43 points 10/14–16. Drop brings the average to 2246.47, from record high of over 2700 points in August.

OCT. 19. US stock market crashes, with Dow Jones Industrial Average falling 508.32 points in one day to 1738.41 (22.6% drop). Record 604.8 million shares change hands, nearly double 10/16 record volume of 338.5 million shares. Stock markets around the world plummet the next day; London and Tokyo exchanges are hardest-hit; Hong Kong exchange suspends trading for a week 10/20.

NOV. 6. US and Mexico sign trade "understanding" for negotiations within 90 days of signing on major trade disputes. Understanding also provides for negotiations to begin 30 days after either government files a trade or investment complaint.

— Brazil and its creditor banks agree on short-term plan by which Brazil will resume interest payments on its foreign debt, suspended 2/20. Accord calls for $3 billion in short-term bridging loans to Brazil.

NOV. 13. US threatens to impose punitive tariffs on $105-million worth of imports from Brazil, in retaliation against Brazilian import restrictions on US computer software.

NOV. 18. Mexican central bank allows exchange rate value of peso to float; by 11/19 peso trades at rate 31% below that of 11/17. Decision comes after Mexican stock market had lost more than 70% of its value between 10/5 and 11/17. Mexico 12/14 devalues official peso-dollar exchange rate 22%. The Bank of Boston 12/14 announces write-off of $200 million in loans to Latin American countries.

DEC. 3. West Germany's Bundesbank cuts lending rate to commercial banks to 2.5%; central banks of Britain, France, Switzerland, Belgium, Austria and the Netherlands announce similar cuts. Move appears result of American pressure to stimulate European economy after stock market collapse.

DEC. 12. OPEC foreign ministers in Vienna fail to produce agreement to end price discounting and overproduction within the oil cartel.

DEC. 29. Morgan Guaranty Trust Company proposes plan by which US banks would forgive billions of dollars of Mexican debt in return for bonds of a lesser value issued by Mexico and backed by US Treasury bonds bought by Mexico. Plan foresees reduction of Mexico's $70-billion foreign bank debt by as much as $10 billion.

WESTERN EUROPE AND CANADA

JAN. 12. Polish leader Gen. Wojciech Jaruzelski visits Italy in first official visit to the West since martial law was imposed in Poland 5 years ago, meets privately with Pope John Paul II 1/13.

JAN. 13. West German customs officials arrest Mohammed Ali Hamadei as he arrives at Frankfurt airport from Beirut. Hamadei believed to be one of 2 hijackers of a Trans World Airlines jet to Beirut in 6/85. West Germany announces 6/24 it will not extradite Hamadei to the US, but will try him itself on charges of air piracy and murder of a US serviceman.

JAN. 14. Coalition government of Austria's 2 largest parties is formed, after 11/86 elections left no party with parliamentary majority. Franz Vranitzky of the Socialist Party remains chancellor, People's Party leader Alois Mock assumes posts of vice chancellor and foreign minister.

JAN. 21. Irish government falls on issue of proposed budget cuts. Opposition Fianna Fáil 2/17 defeats Prime Minister Garret FitzGerald's Fine Gael government in general elections, but falls 3 seats short of parliamentary majority. Charles Haughey, Fianna Fáil leader, elected 3/10 prime minister by Dáil (parliament).

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JAN. 25. West German general elections; center-right coalition of Christian Democratic Union and Free Democratic Party wins with 53.4% of vote, left-of-center Social Democrats capture 37%. Chancellor Helmut Kohl officially reelected 3/11 to second 4-year term, as governing coalition concludes negotiations to form a government.

FEB. 23. Trial begins in France for Georges Ibrahim Abdallah, presumed leader of the Lebanese Armed Revolutionary Faction, charged with complicity in 1982 slayings of American military attaché Lt. Col. Charles Ray and Israeli diplomat Yacov Barsimantov. Abdallah is found guilty 2/28 and sentenced to life imprisonment.

— Socialist Party leaders agree to form coalition government with Basque National Party (PNV) in Spain's Basque region. PNV lost long-held dominance in region in 11/86 election.

MAR. 3. Italian Socialist Prime Minister Bettino Craxi resigns, fulfilling pact made 7/86 among 5 governing coalition parties, providing for Craxi to step down and be succeeded by a Christian Democrat. Former Prime Minister Giulio Andreotti asked by President Francesco Cossiga to form government 3/9; admits failure 3/25. Craxi continues to head caretaker government.

MAR. 6. British car ferry with at least 543 passengers on board capsizes shortly after leaving Belgian port of Zeebrugge. Death toll is 184.

MAR. 10. Roman Catholic Church, in major doctrinal statement, declares moral opposition to virtually all forms of artificial human reproduction.

MAR. 16. In Finnish parliamentary elections, governing Social Democratic Party loses one seat, conservative Kokoomus party gains 9. Harri Hokeri of Kokoomus sworn in as premier 4/30, to head new coalition government including SDP.

MAR. 20. Two motorcyclists shoot to death Italian Air Force Gen. Licio Giorgieri near Rome; the Union of Fighting Communists, a faction of the Red Brigades, takes responsibility, citing Giorgieri's "adhesion to the [US] Star Wars project."

MAR. 23. Former West German Chancellor Willy Brandt resigns as chairman of Social Democratic Party, amid furor over naming of Margarita Mathiopoulos, a personal friend and a Greek citizen, to be official SDP spokesman. Hans-Jochen Vogel is named chairman.

— A bomb blast at British army and air force base in Rheindahlen, West Germany, injures 31 people—4 Britons and 27 West Germans. Provisional Irish Republican Army (IRA) claims responsibility 3/24.

MAR. 26. Turkey sends out a seismic exploration vessel, accompanied by warships, close to Greek islands of Lemnos, Samothrace and Thasos, near believed site of major oil deposits in disputed territorial waters. Greece and Turkey go on military alert. Greece charges that US favors Turkey, asks US to suspend operations at a military communications base near Athens. Crisis eases 3/27; Greece withdraws demand for US base closing; Turkey orders ships to avoid disputed waters.

— French security police announce arrest of 8 Arabs suspected of involvement in a 9/86 Paris terrorist bombing campaign. French authorities say suspects linked to Iranian secret service and terrorist group Hezbollah; one, Mohammad Mouhajer, is described as founding member of Hezbollah.

APR. 3. Greek National Assembly votes to enable the Socialist government to expropriate many landholdings of the Greek Orthodox Church for distribution among farm cooperatives.

APR. 5. President Reagan visits Canadian Prime Minister Brian Mulroney in Ottawa; they discuss free trade and acid rain. Reagan, in 4/6 speech to Parliament agrees "to consider" Mulroney's proposal for bilateral negotiations on acid rain.

APR. 8. Italian caretaker government falls. Christian Democrat Amintore Fanfani sworn in as temporary prime minister 4/18; Fanfani government loses vote of confidence 4/28, President Cossiga dissolves Parliament and calls elections for 6/14. Fanfani stays on as caretaker prime minister.

APR. 27. US Justice Department bars Austrian President Kurt Waldheim from entering US, citing evidence of his participation in persecution of Jews and others while an officer in Nazi army. Austrian Chancellor Vranitzky pays official visit to Washington 5/20–22, fails to reverse US decision barring Waldheim.

APR. 30. Prime Minister Mulroney and Canada's provincial premiers reach "Meech Lake" agreement to win Quebec's acceptance of Canada's constitution; proposed agreement recognizes Quebec as "distinct society" within Canada; is

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presented to Parliament 5/1. Quebec National Assembly (provincial parliament) approves accord 6/23; Canadian House of Commons approves 10/26, leaving federal Senate and other provincial legislatures yet to ratify measure.

MAY 8. Eight terrorists and a bystander are killed by British security forces when IRA attacks police station in Loughall, Northern Ireland, with a hijacked bulldozer loaded with explosives.

MAY 9. General elections in Malta return conservative Nationalist Party to power after 16 years in opposition. Nationalist leader Edward Fenech Adami sworn in as prime minister 5/12.

MAY 11. Trial of Klaus Barbie opens in France; he is accused of torture or deportation to Nazi Germany of several hundred Jews and resistance members while head of Gestapo in Nazi-occupied Lyons. Barbie is found guilty of crimes against humanity 7/4; is sentenced to life imprisonment.

JUNE 8. Summit of leading Western nations (US, Britain, Canada, France, Italy, West Germany) and Japan opens in Venice. Leaders endorse freedom of navigation in Persian Gulf 6/9. Final communiqué 6/10 includes statements on coordination of trade and economic policies, debt-relief for sub-Saharan Africa, exchange rates and agriculture policy. Also denounces apartheid in South Africa and calls for cooperation in confronting the AIDS epidemic and drug abuse.

JUNE 11. Prime Minister Margaret Thatcher's Conservative Party wins British general elections, though party drops 17 seats in Parliament, to 375. Labour Party gains 21 seats, to 229; the Alliance (Social Democratic and Liberal parties) drops 5 seats, to 22. Prime Minister Thatcher announces new cabinet 6/13.

JUNE 14. In Italian general elections, Christian Democrats increase their share of vote to 34.3% from 32.9% in 1983; Communists drop to 24.6% from 29.9%, and Socialists rise to 14.3% from 11.4%.

JUNE 19. West German Chancellor Kohl suggests creation of a joint French-West German army brigade. French President François Mitterrand welcomes Kohl's proposal 6/22, but rules out any plan to bring France back into NATO.

— A bomb blast in a Barcelona supermarket kills 17 and wounds 39. Basque Homeland and Freedom (ETA) group claims responsibility. About 750,000 protest in Barcelona 6/22 against Basque separatists and terrorism.

JUNE 25. Austrian President Waldheim is received as state visitor by Pope John Paul II, who praises Waldheim's lifetime of activities on behalf of peace, makes no mention of controversy surrounding his service as a Nazi army officer.

JUNE 29. The leaders of European Community member states hold semiannual summit in Brussels. Meeting breaks up 6/30 in disagreement over plans to curb EC spending on agricultural subsidies.

JULY 1. France sets up heavy guard around Iranian embassy in Paris, where Iranian diplomat Wahid Gordji, wanted for questioning about his role in 9/86 Paris bombing campaign, has taken refuge. Iranian gunboats 7/13 attack French container ship *Ville d'Anvers* in the Persian Gulf, cause no injuries or serious damage. France breaks diplomatic relations with Iran 7/17. Iran 7/18 accuses French embassy in Tehran of aiding antigovernment groups and surrounds embassy with police.

JULY 19. General elections in Portugal give Social Democratic Party of Prime Minister Anibal Cavaço Silva control of parliament. Center-right PSD wins 50.15% of vote to become first majority Portuguese government since 1974 revolution.

JULY 24. Hussein Ali Muhammed Harari, a Lebanese citizen, attempts to hijack an Air Afrique flight from Brazzaville, Congo, to Paris; demands West German release of Mohammad Ali Hamadei. During refueling stop in Geneva, Harari kills a passenger, then is tackled by airplane's crew. Swiss government says 7/25 it will try Harari for air piracy and murder.

JULY 29. Giovanni Goria, a Christian Democrat and former treasury minister, is sworn in as Italian prime minister, heading 5-party coalition government.

— Treaty formally setting the stage for construction of a privately financed tunnel under the English Channel is signed in Paris by British Prime Minister Thatcher and French President Mitterrand.

AUG. 6. Britain's Social Democratic Party, polled in a month-long ballot, votes to merge with the Liberal Party. SDP leader David Owen, who had opposed merger, resigns from post. Liberal Party annual assembly strongly backs merger 10/17.

SEPT. 8. General elections result in setback for governing 4-party coalition of

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Danish Prime Minister Poul Schlüter, which retains only 70 seats in the 179-seat Folketing (parliament). However, Schlüter forms a new government 9/10.

SEPT.9. Swedish Prime Minister Ingvar Carlsson visits President Reagan in US, expresses opposition to US aid for Nicaraguan contras and skepticism concerning SDI.

SEPT. 15. The European Space Agency successfully launches an Ariane-3 rocket, carrying 2 telecommunication satellites, into orbit from French Guiana; launch is agency's first since failed lift-off in May 1986.

SEPT. 21–24. French and West German troops conduct joint exercises in West Germany; French President Mitterrand and West German Chancellor Kohl announce in Bavaria 9/24 that the 2 countries will discuss a joint defense council to "coordinate decisions and harmonize analyses."

SEPT. 25. US Vice President George Bush arrives in Italy on a visit to 5 NATO nations and Poland. Bush confers with Prime Minister Goria and praises Italian decision to send naval vessels to the Persian Gulf. Visits Poland 9/26–29. Holds talks with West German and French leaders in Bonn and Paris 9/30. Confers with Prime Minister Thatcher in London 10/1, and with Belgian Prime Minister Wilfried Martens in Brussels 10/2.

OCT. 19. Belgian Prime Minister Martens resigns in a government crisis set off by the refusal of the French-speaking mayor of a small town to demonstrate his knowledge of Dutch language. Martens presents caretaker government 10/21. In parliamentary elections 12/13 Martens' conservative coalition loses 7 seats; Flemish and French Socialists together become largest group in parliament.

OCT. 27. Western European Union, consisting of Britain, France, West Germany, Italy, Belgium, the Netherlands and Luxembourg, adopts a "Platform on European Security Interests," urging closer intra-European cooperation on security matters.

NOV. 4. *Le Figaro* prints a report prepared by the inspector general of the French armed forces which charges that, between 1983 and 1986, the Socialist government allowed illegal sales of arms to Iran. President Mitterrand 11/16 admits that he had been informed of the arms sales in 1984, but had told his defense minister, Charles Hernu, to discontinue them.

NOV. 8. Bomb explodes in Eniskillen, Northern Ireland, in a crowd gathered for Britain's Remembrance Day, killing 11 and wounding more than 60; IRA takes responsibility.

NOV. 10. Spain notifies the US that it will not extend the current agreement allowing US bases in Spain past the 3/88 expiration date. The most recent round of bilateral negotiations on the bases was reported to have ended in disagreement 11/6.

NOV. 13. Liberal Party leaves Italy's governing coalition in budget dispute, causing Prime Minister Goria's government to fall 11/14. Goria announces budget compromise 11/18, says he again has Liberal support and can re-form a government.

DEC. 4. Leaders of EC countries meet in Copenhagen, discuss agriculture support cuts and EC's nearly bankrupt budget. Meeting ends 12/5 with no agreement.

DEC. 11. A car bomb believed set by Basque separatists kills 11 and wounds 34 in a barracks for families of Civil Guards in Zaragoza, Spain.

DEC. 15. Italian Prime Minister Goria visits US; meets with President Reagan 12/16, urges US negotiating flexibility on SDI.

DEC. 16. In trial of Mafia in Palermo, Sicily, 338 of 452 defendants are found guilty of running a criminal empire, 19 receive death sentences.

DEC. 26. One US Marine killed, 9 others wounded when grenade is thrown into USO club in Barcelona. Two Catalan separatist organizations claim responsibility.

THE SOVIET UNION AND EASTERN EUROPE

JAN. 8. Soviet KGB head Marshal Viktor Chebrikov admits involvement in 1986 arrest on false charges of Soviet journalist Viktor Berkhin, who exposed government corruption in Ukraine.

JAN. 27. At plenum of Communist Party Central Committee, Soviet General Secretary Mikhail Gorbachev charges party with stagnation, systemic failures; calls for secret balloting and choice of candidates in party elections; also says Soviet

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leadership is considering giving voters choice of candidates in general elections to local bodies. Dinmukhamed Kunayev, replaced in 1986 as first secretary of Kazakhstan Communist Party, leaves Politburo 1/28 "for reasons of health." Alexander Yakovlev is appointed as candidate (nonvoting) member of Politburo. Mikhail Zimyanin resigns from party Secretariat; 2 of Gorbachev's associates, Anatoly Lukyanov and Nikolai Slyunkov, are elected to Secretariat.

FEB. 6. Two Soviet cosmonauts are launched toward space station *Mir*, which has been orbiting earth since 2/86. Cosmonauts dock successfully 2/8. Cosmonaut Alexander Laveikin becomes ill and is replaced by Alexander Alexandrov 7/30.

FEB. 10. Soviet Foreign Ministry spokesman Gennadi Gerasimov announces that 140 prisoners convicted of subversive activities have been pardoned, and that comparable number of additional cases are being studied; marks largest release of political prisoners in the USSR since 1956.

FEB. 12. About 25 demonstrators, protesting daily in Moscow since 2/8 on behalf of imprisoned Jewish dissident Iosif Begun, are roughed up by 40 plainclothes security police. Similar crackdown occurs 2/13.

FEB. 17. Soviet officials say dissident psychiatrist Anatoly Koryagin will be freed from prison by decree, but that Jewish dissident Begun remains imprisoned pending decision of Soviet Presidium. Koryagin is released 2/19, Begun 2/20. Koryagin given permission to emigrate 4/23; arrives in Zurich 4/24.

FEB. 26. USSR conducts underground nuclear test in Kazakhstan, ending 18-month unilateral moratorium on tests.

FEB. 27. Yugoslav government places emergency controls on wage levels. Nationwide strikes break out, starting 3/1, ultimately involving 20,000 workers in 168 incidents. Premier Branko Mikulić threatens 3/22 to use army to defend "constitutional system." Strikes end 3/26.

MAR. 15. Between 1,500 and 2,000 marchers in Budapest mark anniversary of 1848 Hungarian uprising against Austrian rule; call for more democracy in Hungary.

MAR. 28. Polish government announces 10–100% price increases for most basic foodstuffs, fuel, cigarettes, alcohol, transportation and postal services, to go into effect 3/29.

MAR. 31. Soviet unmanned space module *Kvant* is launched. Cosmonauts in orbiting space station *Mir* assist module to dock with station 4/12.

APR. 9. Soviet General Secretary Gorbachev visits Prague; meets with Czechoslovak President Gustáv Husák. Makes major policy speech 4/10 at Czechoslovak-Soviet Friendship Society meeting, says he is not "calling on anyone to copy us," but is convinced that "restructuring in the Soviet Union is in accordance with the very essence of socialism."

APR. 23. East German leader Erich Honecker, speaking before a trade union congress, firmly rejects idea that his country should emulate economic and political reforms initiated in USSR.

MAY 1. Law giving Soviet citizens the right to engage in limited private business activities takes effect. The law allows citizens to obtain local licenses to sell their skills for profit in 40 categories of business.

MAY 16. USSR announces successful test launching of a "new generation" rocket with a 100-ton payload. The rocket, named *Energia*, is claimed to have "the most powerful engines in the world today."

MAY 25. Soviet General Secretary Gorbachev arrives in Romania for a 3-day visit. Gorbachev explains his reform program to a mass meeting of 5,000 Communist Party officials, who listen to his speech in silence.

MAY 30. Soviet Defense Minister Sergei Sokolov is relieved of his duties after West German teenager Mathias Rust flies small plane from Helsinki into Red Square in Moscow. Alexander Koldunov, commander of Soviet air defenses, is also dismissed. Dmitri Yazov, deputy defense minister for personnel and political ally of Gorbachev, is named to replace Sokolov.

JUNE 5–6. Between 3,000 and 4,000 East Berlin youths skirmish with police who try to prevent them from listening to rock concert just across Berlin Wall.

JUNE 8. Pope John Paul II makes official visit to Poland. Visits Lech Wałęsa 6/11, calls dissident labor union Solidarity a model for all human rights movements. After 6/12 mass in Gdańsk attended by estimated one million persons, workers and security forces clash briefly. Pope 6/13 visits textile mill in Łódź; calls working

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conditions unsafe. Declares 6/14 in Warsaw that Vatican could establish relations with Poland if local bishops pursue political freedom and government does not interfere.

JUNE 25. General Secretary Gorbachev, at 2-day Central Committee plenum, calls for partial dismantling of centralized economic control and subsidized prices. Central Committee backs plan 6/26; Committee also elects 3 Gorbachev protégés to full membership in the Politburo: Alexander Yakovlev, Nikolai Slyunkov and Viktor Nikonov. Defense Minister Yazov is named candidate member of Politburo. Gorbachev calls 6/30 for increased family farming; Supreme Soviet sets procedure for legal appeal against public officials who violate civil rights.

— Official Hungarian radio announces that President Pál Losonczi and Prime Minister György Lázár will retire. Károly Németh, a deputy to János Kádár, Hungarian Communist Party general secretary, is named president; Károly Grósz, Budapest party chief, becomes prime minister.

JUNE 26. Central Committee of ruling Yugoslav League of Communists meets in Belgrade, discusses tensions in Kosovo region between area's majority ethnic Albanians and minority Serbs and Montenegrins. Over 1,000 Serbs from Kosovo hold silent vigil during meeting and later clash with police.

JULY 2. Soviet government tells pianist and Jewish refusenik Vladimir Feltsman that he may emigrate with wife and child. Feltsman flies to Vienna 8/6.

JULY 15. Western press reports premier of Ukrainian Republic Alexander Lyashko has retired in shake-up involving at least 8 other top government officials; Vladimir Shcherbitsky, Ukraine Communist Party first secretary, remains in office. Lyashko is replaced with Vitaly Masol, formerly Ukraine's planning minister.

JULY 20. Hungary raises prices of certain consumer goods and services by 10–29% as first step in austerity program to help combat hard currency trade deficit. Additional steps, including cutback in subsidies to state-supported enterprises and a value-added tax, are announced 9/17–19.

JULY 23. Some 300 Tatars begin protest vigil in Moscow, demanding autonomous homeland in Crimea; police clash with protestors 7/25; Tatar leaders are allowed to meet with President Andrei Gromyko 7/27.

JULY 28. In speech to the Bulgarian Communist Party Central Committee plenum in Sofia, party leader Todor Zhivkov calls for reduction in the party's role in the running of government and the economy.

AUG. 4. USSR reported to reach agreement with Iran for joint construction of railroads and oil pipelines.

AUG. 11. USSR confirms deployment of new mobile SS-24 ICBM, world's first missile designed to be launched from railroad cars.

AUG. 23. In protests marking anniversary of 1939 Nazi-Soviet Nonagression Pact, crowds of up to 2,000 march through the capitals of the 3 Soviet Baltic republics calling for independence.

OCT. 5. State of energy emergency is declared in Romania; government 11/11 announces 30% reductions in household, school and government office energy quotas. Thousands of industrial workers riot 11/15 in the city of Brasov.

OCT. 21. At meeting of Central Committee in Moscow, Geidar Aliyev is removed as full member of Politburo, for reasons of health.

OCT. 25. Over 350 anti-riot police are sent to Yugoslavia's Kosovo region to quell ethnic unrest aroused by reports of an ethnic Albanian official's "joke" at expense of Serbian women.

NOV. 2. Gorbachev, launching celebration of 70th anniversary of Bolshevik Revolution, denounces Stalin's historical legacy, acknowledges contributions of party theoretician Nikolai Bukharin, criticizes Leon Trotsky. Gorbachev also defends his program of *perestroika* (restructuring), and proclaims intention to seek a strategic arms agreement with the US.

NOV. 11. Moscow party chief Boris Yeltsin is dismissed from post. There were rumors he had angrily complained about slow pace of reform at Central Committee meeting 10/21. Yeltsin is named deputy director of State Committee for Construction 11/18.

NOV. 15. Yugoslavia imposes general wage freeze and price increases, sparking wave of panic buying. Yugoslavia 11/17 devalues currency, the dinar, by 24.6%.

NOV. 29. Polish national referendum on political and economic reform is defeated, failing to attract approval of 50% of all eligible voters. Referendum asked

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voters to approve hardship during "radical healing of the economy" and a "profound democratization" of politics. Solidarity had asked voters to boycott the referendum.

DEC. 17. Gustáv Husák resigns as head of Czechoslovak Communist Party, is replaced by Miloš Jakeš, member of the party Presidium. Czechoslovakia and Vatican 12/19 reopen talks to reduce tensions.

DEC. 29. Soviet cosmonaut Yuri Romanenko returns to earth from a record 326 days in space aboard space station *Mir*.

EAST-WEST RELATIONS

JAN. 10. US Marine Corps announces detention of former embassy guard in Moscow, Sgt. Clayton Lonetree, after he confessed 12/86 to giving secrets to female KGB agent who had apparently seduced him. Lonetree is charged 1/31 with giving Soviets names and photos of CIA agents and floor plans of Moscow and Vienna US embassies.

JAN. 15. US Commerce Department lifts controls imposed in 1978 on export of oil-drilling equipment to USSR.

JAN. 28. US Deputy Secretary of State John Whitehead arrives in Warsaw on official visit to determine if US should continue economic sanctions imposed on Poland after the declaration of martial law in 1981–82.

FEB. 4. Soviet General Secretary Mikhail Gorbachev meets in Moscow with US foreign policy experts on mission sponsored by Council on Foreign Relations; group includes former cabinet officers Harold Brown, Henry Kissinger, Peter Peterson and Cyrus Vance.

FEB. 14–16. Soviet Union hosts international peace and disarmament forum attended by over 700 artists, scientists, businessmen and officials. Dissident Andrei Sakharov, attending forum, appeals 2/14 for more democratic Soviet Union. Gorbachev addresses forum 2/16, says the USSR seeks world stability so that it can conduct domestic reform.

FEB. 15–20. American Broadcasting Company network airs controversial television series, "Amerika," depicting US 10 years after a Soviet takeover.

FEB. 19. President Reagan lifts economic sanctions on Poland, calls action reward for release of political prisoners and government moves toward reconciliation with Solidarity and Roman Catholic Church.

FEB. 28. General Secretary Gorbachev offers to sign agreement eliminating Soviet and US intermediate nuclear missiles in Europe, and expresses willingness to separate negotiations on this issue from other arms issues including SDI; also offers to negotiate limits on short-range missiles in Europe. In response, White House announces intention to "move very rapidly to agreement."

MAR. 12. US proposes elaborate verification measures, says Soviet Union must agree to them before US will sign any treaty removing American and Soviet intermediate nuclear missiles from Europe.

MAR. 24. US Marines announce arrest of 2nd Moscow embassy guard, Cpl. Arnold Bracey; accuse him of passing secrets to female KGB agent. Marine Corps announces 3/30 that all 28 guards at embassy will be replaced in April. Charges against Bracey dismissed 6/12.

MAR. 28. British Prime Minister Margaret Thatcher arrives in Moscow, meets 3/30 with Gorbachev, says progress in arms control depends on Soviet human rights observance. British and Soviet officials 3/31 sign 4 bilateral protocols on diplomatic, scientific, cultural and education cooperation.

APR. 1. Israeli Ambassador to the US Meir Rosenne says Israel and the Soviets have agreed to exchange consular delegations. Soviet spokesman Gennadi Gerasimov 4/2 says Soviet delegation will go to Israel but denies reciprocal visit by Israelis to USSR.

APR. 2. France expels 3 Soviet diplomats after a disclosure that 6 people arrested in France 3/18 on charges of spying to obtain European space program secrets were supervised by Soviet embassy. Moscow 4/4 expels 2 French businessmen in retaliation.

APR. 6. US Representatives Daniel Mica (D-Fla.) and Olympia Snowe (R-Me.) make unannounced visit to the US embassy in Moscow and find it "fully compro-

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mised" with electronic observation devices. President 4/7 orders Foreign Intelligence Review Board to determine if new embassy buildings are riddled with listening devices; State Department also orders studies of embassy buildings. Soviet Foreign Ministry holds press conference in Moscow 4/9, displays listening devices it says were planted by US intelligence at Soviet missions in US.

APR. 13. US Secretary of State George Shultz and Soviet Foreign Minister Eduard Shevardnadze meet in Moscow, discuss possible intermediate nuclear forces (INF) agreement. Gorbachev meets with Shultz 4/14, proposes eliminating short- and intermediate-range missiles from Europe. US and USSR 4/15 sign accord to share information from unmanned space probes.

APR. 20. Karl Linnas, accused of commanding a Nazi death camp in Estonia during World War II, is deported by US to USSR. Linnas dies of heart and kidney disease in Leningrad hospital, 7/2.

APR. 22. Gorbachev says he not only wishes to "eliminate Soviet and American shorter-range missiles simultaneously in Europe," but that he also wants "to hold talks on such missiles [remaining] in the east of our country and in the territory of the US."

APR. 27. USSR offers a draft INF treaty in Geneva arms talks, demands elimination of nuclear-capable West German Pershing 1A missiles.

APR. 30. US Agriculture Secretary Richard Lyng announces that the USSR has agreed to buy 4 million metric tons of subsidized American wheat, to be delivered by 9/30.

MAY 8. US offers a draft treaty on the reduction of strategic (long-range) offensive weapons, calling for reduction of strategic arsenals by 50% over a period of 7 years. Kremlin 5/12 complains proposal provides for no curtailment of U.S "space weapons."

MAY 14. French Prime Minister Jacques Chirac visits USSR, meets with General Secretary Gorbachev 5/14, praises Soviet reform. Gorbachev expresses concern over "anti-Sovietism" in France.

MAY 15. The Nuclear Planning Group of NATO (member countries' defense ministers) unanimously calls for global elimination of longer-range INFs.

MAY 23. Soviet jamming of Voice of America stops for first time since 1980. Soviet jamming continues to interfere with broadcasts by other Western radio networks, including Radio Liberty and Radio Free Europe.

MAY 29. West German teenager Mathias Rust makes unauthorized light aircraft flight from Helsinki to Moscow. Rust is arrested. Sentenced 9/4 to 4 years in labor camp for hooliganism.

— Leaders of Warsaw Pact nations end summit in East Berlin with call for direct talks with NATO on reductions in conventional forces and tactical nuclear weapons.

JUNE 1. West German government agrees to endorse elimination of US and Soviet INF missiles from Europe, but insists on retaining its 72 Pershing 1A missiles.

JUNE 2. President Reagan renews most-favored nation trade status for Romania, Hungary and China, while voicing concern over human rights violations in Romania.

JUNE 8. James Schlesinger, head of US State Department special panel investigating security at new US embassy in Moscow, calls for demolition of top 3 floors of chancery building. Schlesinger issues formal report 6/26, says US overestimated ability to counteract espionage.

JUNE 12. NATO foreign ministers meet in Reykjavik, formally endorse a global ban on US and Soviet short-range nuclear missiles.

— President Reagan, in West Berlin to celebrate city's 750th anniversary, challenges Gorbachev to tear down Berlin Wall.

JUNE 17. NATO's departing SACEUR, Gen. Bernard Rogers, cautions against the "rush" to pull out intermediate missiles from Europe. Rogers 6/23 calls projected INF agreement a mistake, warns against a denuclearized Europe. US Secretary of State Shultz criticizes Rogers' statements 6/20 as "way out of line." Rogers retires 6/25.

JULY 6–12. West German President Richard von Weizsäcker visits USSR. Bonn announces 7/8 that Gorbachev has accepted an invitation to visit West Germany within one year.

JULY 12. Eight-man Soviet consular delegation arrives in Israel, is given renewable 90-day visas, prompting speculation that the "visiting" delegation could become a long-term or even permanent fixture.

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JULY 15. Norway informs USSR of intention to expel 4 Soviet diplomats for seeking submarine technology, computer software and hardware. USSR expels 2 Norwegian diplomats 7/27; Norway officially expels Soviets 7/30.

JULY 23. Radio Moscow warns that Israeli deployment of a new intermediate ballistic missile could lead to "consequences that [Israel] could not possibly handle." Israel was reported 7/21 to have test-fired a new missile.

JULY 27. NATO calls for Mutual and Balanced Force Reductions talks to be replaced with a new forum on reducing conventional forces within framework of Conference on Security and Cooperation in Europe. New forum would include only NATO and Warsaw Pact, unlike MBFR talks which include neutral nations.

JULY 31. Soviet negotiators in Geneva present draft treaty for 50% reduction in strategic nuclear weapons, explicitly linking agreement to curbs on SDI.

AUG. 11. US and the Soviet Union, in Geneva talks, agree on system of compulsory "challenge inspections" of their chemical weapons facilities, allowing US and Soviet experts to visit each other's arms storage sites with 48 hours notice.

AUG. 13. Some 250 young East Berlin protesters demonstrate at the Berlin Wall, urging its removal, on 26th anniversary of the Wall's construction.

AUG. 20. USSR expels a Japanese naval attaché and a businessman, claiming that they were caught spying in separate incidents. The same day, Japan orders expulsion of a Soviet deputy trade representative accused of purchasing stolen military documents.

AUG. 21. A naval court-martial convicts Sgt. Lonetree on 13 charges of espionage. Lonetree is sentenced 10/24 to 30 years in prison.

AUG. 26. West Germany offers to scrap its 72 Pershing 1A missiles if US and Soviet Union first dismantle all their intermediate nuclear forces.

SEPT. 1. Erich Honecker becomes first East German head of state to visit West Germany, holds talks in Bonn with Chancellor Kohl 9/7–8; they announce agreements on scientific, economic and cultural cooperation, environmental issues and nuclear reactor safety.

SEPT. 8. US congressmen Thomas Downey (D-N.Y.), Jim Moody (D-Wisc.) and Bob Carr (D-Mich.), visiting Soviet Union, are taken on surprise visit to Krasnoyarsk radar facility, which US claims violates ABM treaty. The congressmen state afterward that, because of its unprotected construction, "the probability of Krasnoyarsk functioning as a battle-management radar [is] extremely low."

SEPT. 15. Soviet Foreign Minister Shevardnadze arrives in Washington for talks with US Secretary of State Shultz. Shevardnadze agrees 9/17 that West Germany's Pershing 1A missiles need not be included in proposed INF treaty, provided US dismantles the US-controlled nuclear warheads for the missiles. President Reagan 9/18 announces tentative agreement on an INF treaty.

SEPT. 17. A US soldier is shot in arm by a Soviet patrol while in nonrestricted area near Neuruppin, East Germany.

SEPT. 26. US Vice President George Bush arrives in Warsaw, meets with Poland's president, Gen. Wojciech Jaruzelski 9/27. Bush and Jaruzelski agree that US will help Poland seek a rescheduling of its foreign debt. Bush visits Solidarity founder Lech Wałęsa 9/27–28.

SEPT. 29. The Soviet Union test-launches an intercontinental ballistic missile, whose dummy warheads land in Pacific 500 miles northwest of Hawaii. The Soviets had notified US of test, but had ignored strong US protests against it.

OCT. 3. International delegation from the Geneva Commission on chemical weapons visits a chemical-weapons complex at Shikhany, 375 miles southeast of Moscow, and watches as the Soviets destroy a 550-pound chemical bomb.

OCT. 22. Secretary Shultz arrives in Moscow and meets with Shevardnadze; meets 10/23 with Gorbachev. Gorbachev refuses to set date for a Reagan-Gorbachev summit. Shultz leaves the Soviet Union and briefs NATO foreign ministers in Brussels 10/24. Moscow reverses its position 10/27 and requests a summit meeting; Reagan announces 10/30 that Gorbachev will visit US in December.

NOV. 9. US-Soviet talks open in Geneva on banning underground nuclear tests, as agreed during Shultz's recent Moscow visit.

NOV. 19. Soviet delegation visits US chemical weapons storage facility at Tooele, Utah, under the terms of 8/11 "challenge inspection" agreement.

NOV. 20. US and Soviet Union announce that they will conduct joint under-

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ground nuclear tests in 1988 to measure seismic monitoring equipment for the purposes of future verification of nuclear tests.

NOV. 22. Shultz and Shevardnadze meet in Geneva to resolve final differences on proposed INF treaty; 11/24 they announce agreement for resident observers at former INF-manufacturing plants and short-notice on-site inspections of former deployment facilities. Shultz and Shevardnadze also agree on timetable for Washington summit.

NOV. 30. General Secretary Gorbachev, in one-hour US television interview, calls for 50% mutual reduction in strategic nuclear arms, admits USSR is engaged in space-based missile shield research, promises to counter any US deployment of SDI.

DEC. 2. President Reagan charges Soviets with violating ABM treaty by moving 2 existing radar stations from south-central USSR to Byelorussia; USSR denies violation.

DEC. 3. President Reagan, in television interview, says opponents of proposed INF treaty are "ignorant of the advances that have been made in verification," and that some of the treaty opponents seem to believe "that war is inevitable."

DEC. 6. Two hundred thousand protesters march in Washington, DC, demanding that issues of human rights and Jewish emigration figure prominently in upcoming Reagan-Gorbachev summit.

DEC. 7. General Secretary Gorbachev arrives in Washington after 2-hour stopover in London. Reagan and Gorbachev 12/8 sign treaty providing for demolition of 2,611 Soviet and American INF missiles and continuous mutual verification inspections of both countries' installations for 13 years after treaty goes into effect. Reagan and Gorbachev 12/9 discuss Soviet troop withdrawal from Afghanistan and proposed strategic nuclear forces reduction treaty; Soviet Chief of General Staff Marshal Sergei Akhromeyev visits Pentagon; summit ends 12/10. NATO foreign ministers meet in Brussels 12/11, urge Senate ratification of INF treaty.

DEC. 11. West German Defense Minister Manfred Wörner is chosen NATO secretary general, succeeding Lord Carrington of Britain.

DEC. 13. Secretary Shultz announces that Administration will no longer attempt to gain congressional acceptance of "broad interpretation" of ABM treaty; that Administration will seek funding for SDI tests on a case-by-case basis.

DEC. 18. US announces expulsion of Soviet UN diplomat Mikhail Katov, charging he tried to obtain military secrets from private industry.

DEC. 29. US National Security Adviser Colin Powell says USSR has reserved option of revoking proposed strategic nuclear arms reduction treaty if US violates ABM treaty by testing SDI components in space.

MIDDLE EAST AND PERSIAN GULF

JAN. 9. Iran mounts major Gulf war offensive across Shatt-al-Arab 22 miles southeast of Basra, Iraq. Iran 1/11 opens new front 75 miles northeast of Baghdad; 2nd offensive stalls 1/15. Iran 1/16 captures most of Bovarian Island in Shatt-al-Arab southeast of Basra. Iran 1/21 captures town of Duayji, 6 miles from Basra.

JAN. 12. Terry Waite, special envoy of Anglican Archbishop of Canterbury, begins 5th mission to Lebanon, seeking release of 18 foreign hostages. Waite is last seen 1/20 leaving Beirut hotel for meeting with Shia Muslim faction believed to hold 4 Western hostages.

JAN. 13. Roger Auque, French journalist, is seized by gunmen in Beirut. Gunmen 1/16 seize West German businessman Rudolf Cordes, apparently in retaliation for 1/13 arrest of suspected terrorist Mohammed Ali Hamadei. Another German businessman, Alfred Schmidt, is kidnapped 1/21.

JAN. 24. Four Beirut University College professors are kidnapped: 3 Americans (Alann Steen, Jesse Turner and Robert Polhill) and 1 Indian resident US alien, Mitheleshwar Singh. President Reagan 1/26 describes Beirut situation as "total anarchy," says professors ignored State Department warnings to leave. US 1/27 orders 5 navy combat ships into northern Persian Gulf, directs 2 aircraft carriers into eastern Mediterranean. State Department 1/28 bars travel to Lebanon on US passports, gives 1,500 US citizens there 30 days to leave. Islamic Jihad for the Liberation of Palestine 1/28 claims responsibility for kidnapping; 1/29 threatens to

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kill hostages if US mounts rescue; 1/31 demands Israeli release of 400 Arab prisoners by 2/9. Kidnappers 2/10 extend deadline "until further notice."

JAN. 29. Four-day Organization of the Islamic Conference summit concludes in Kuwait. Conferees disagree on Iran-Iraq war, condemn 5/86 US air raid on Libya, urge USSR to withdraw from Afghanistan. Egyptian attendance seen as step toward normalizing relations with most other Arab nations, broken off since 1979 Israeli-Egyptian peace agreement. Meeting boycotted and threatened by Iran, in protest against Kuwaiti support of Iraq.

JAN. 31. Gerald Seib, *Wall Street Journal* correspondent, is seized and detained while visiting Tehran at Iranian government request. Official Iranian press agency calls Seib "a spy of the Zionist regime." Seib is released 2/4 and turned over to Swiss embassy, flies to Zurich 2/6.

FEB. 14–15. Trucks loaded with food allowed to enter Palestinian refugee camp in Lebanon under siege since 10/85 by guerrillas of Shia group Amal; international criticism of Amal and its patron Syria had grown as threat of mass starvation loomed. Nabih Berri, Amal leader, announces lifting of siege 2/17.

FEB. 15. Fighting breaks out in West Beirut between Shia Amal guerrillas and alliance of Druse and communist militias. At request of Muslim Lebanese leaders, 7,000 Syrian troops and 10 Soviet-built T-54 and T-62 tanks enter West Beirut 2/22 to halt week's fighting, reported to have killed 300, wounded over 1,300. Syrian troops 2/24 seize 50 neighborhood militia offices in West Beirut, kill 23 members of Hezbollah when capturing its headquarters.

— Lebanese Druse leader Walid Jumblatt charges for the first time that pro-Iranian Shia group Hezbollah is holding Anglican Church envoy Waite.

FEB. 16. Israeli Prime Minister Yitzhak Shamir arrives in US for 10-day visit. Meets with Secretary of State George Shultz 2/17; Shamir opposes proposed international Middle East peace conference. Meets with President Reagan and congressional leaders 2/18.

— Trial of John Demjanjuk, Ukrainian-born 66-year-old retired Cleveland auto worker, opens in Jerusalem. Demjanjuk is accused of being "Ivan the Terrible," a brutal attendant at Treblinka Nazi death camp.

FEB. 25. Israeli Foreign Minister Shimon Peres visits Cairo, meets with Prime Minister Atef Sedki and President Hosni Mubarak. Peres announces 2/27 agreement in principle to an international peace conference on Middle Eastern peace during 1987.

— Iran officially announces that its 1/9 offensive has achieved goals of inflicting heavy Iraqi casualties and capturing territory near Basra in anticipation of a "final assault." Estimated number killed during offensive is 45,000 Iranians and 20,000 Iraqis.

MAR. 4. Thirty Turkish warplanes bomb Kurdish rebel targets in Iraq, killing estimated 100. Raid in retaliation for 2/22 Kurdish attack in eastern Turkey that killed 14 villagers.

MAR. 11. Israeli cabinet announces inquiry into case of Jonathan Jay Pollard, former US naval intelligence analyst, who 3/4 was sentenced by US court to life imprisonment for selling military secrets to Israel. Investigators 5/26 clear top Israeli leaders of knowledge or involvement.

MAR. 16. Former US President Jimmy Carter begins private tour of Algeria, Egypt, Israel, Syria and Jordan. Carter meets with Syrian President Hafez al-Assad 3/21–24, reportedly urges Assad to use influence to free foreigners held hostage in Lebanon. Carter tells Israeli leaders 3/27 that Assad "gave me specific permission" to say Syria is ready to attend an international peace conference.

MAR. 18. Israeli cabinet decides not to sign new military sales contracts with South Africa and to study possible imposition of economic sanctions on Pretoria.

MAR. 23. US offers to extend military protection to Kuwaiti vessels traveling through international waters in the Persian Gulf against attack by Iran-Iraq war combatants.

— Islamic Jihad for the Liberation of Palestine, kidnappers of 4 Beirut University College professors, issues a statement warning that hostage Alann Steen is ill and may die "in 10 days." Kidnappers offer to exchange Steen for Israeli release of 100 Arab prisoners. Israel rejects kidnappers' demands as "blackmail."

MAR. 29. Israeli Air Force officer Col. Aviem Sella, accused of recruiting Jona-

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than Jay Pollard as a spy, gives up recent promotion to post of air base commander because of tensions it had caused between the US and Israel.

APR. 6. Kuwait proposes transferring the registration of some Kuwaiti oil tankers to American flag so US military vessels can protect them in the Persian Gulf. Kuwaitis also seek to transfer some tankers to Soviet registry.

— Egypt holds People's Assembly elections. In final results reported 4/10, ruling National Democratic Party retains 338 of 448 contested seats, but opposition alliance including Islamic fundamentalists enhances strength, winning 60 seats.

APR. 7–9. Israeli Foreign Minister Peres meets with Soviet Middle East experts Karen Brutents and Alexander Zotov at Socialist International conference on Middle East peace issues in Rome. Two Palestinians, Hanna Seniora, Jerusalem newspaper editor, and Abu Rahme, Gaza Strip lawyer, also attend.

APR. 14. USSR announces it will lease 3 tankers to Kuwait to transport oil through Persian Gulf, and raises possibility that Soviet warships may escort the tankers.

APR. 19. Two Israeli soldiers and 3 Palestinian guerrillas are killed in shoot-out after guerrillas cut through a Lebanon border fence. Responsibility for incursion is taken by Al Fatah faction of Palestinian Liberation Organization (PLO).

APR. 20. Palestine National Council meets in Algiers to resolve factional differences. Yasir Arafat of Al Fatah joins with 2 hard-line leaders: George Habash and Nayef Hawatmeh. Convention concludes 4/26 with unity announcement; Arafat is reelected head of PLO. Arafat agrees to take hard-line stance on Arab-Israeli peace issues, damaging PLO relations with Egypt, Jordan and Morocco.

APR. 23. Syrian President Assad visits Moscow; Soviet leader Mikhail Gorbachev reportedly promises more advanced arms and a rescheduling of Syria's debt to USSR if Assad assents to PLO reunification and Soviet efforts to convene Arab-Israeli peace conference. Assad meets with long-standing foe Iraqi President Saddam Hussein at air force base in northern Jordan on his return from Moscow 4/25.

MAY 4. Lebanese Prime Minister Rashid Karami resigns, agrees to serve until President Amin Gemayel names another prime minister.

MAY 7. Soviet freighter *Ivan Korotoyev* suffers minor damage in attack by Iranian patrol boats in Persian Gulf near Dubai.

MAY 12. Israeli Prime Minister Shamir denounces Foreign Minister Peres' proposal for an international Middle East peace conference; cabinet rejects Peres' plan 5/13.

MAY 14. Egypt breaks diplomatic ties with Iran after arresting 37 members of Muslim extremist organization reputedly financed by Tehran. Action follows 5/5 assassination attempt against former Interior Minister Hassan Abu Basha.

MAY 17. US frigate *Stark* is struck by 2 sea-skimming missiles fired by an Iraqi warplane in the Persian Gulf near Bahrain, killing 37 crewmen. President Reagan 5/18 puts American military vessels in region on heightened state of alert; Iraqi President Hussein admits Iraqi planes are responsible and apologizes.

MAY 19. Reagan Administration announces "general agreement" with Kuwait to reflag 11 Kuwaiti oil tankers so they can be escorted by US Navy in Gulf. US Senate 5/21 votes, 91–5, to require detailed security report from Administration before reflagging begins. Administration 5/28 delays reflagging until late June or early July.

MAY 28. Edward Chaplin, diplomat in British interests section in Tehran, is arrested by Iran on charges of corruption. Britain 6/1 accuses Iran of retaliating for 5/9 shoplifting arrest of Iranian diplomat in Manchester. By 6/18, after more expulsions and recalling of diplomats, each country is left with only one representative in the other's capital.

— *The Washington Post* reports that the USSR has dispatched 3 minesweepers to the Persian Gulf to join the 2 Soviet frigates that had been on patrol there since late 1986.

JUNE 1. Lebanese Prime Minister Karami killed by a bomb explosion in his helicopter. Former Prime Minister Salim al-Huss agrees to become acting prime minister. Muslim leaders call a general strike 6/1 to protest assassination; Christian groups join strike 6/2.

JUNE 17. US journalist Charles Glass and Ali Osseiran, son of Lebanese defense minister, are abducted near Beirut; Osseiran is released 6/24. The kidnappers are

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identified 6/26 as group linked to Hezbollah. Glass flees to freedom 8/18; it is widely thought captors allowed escape, but this is denied by Glass.

JUNE 20. Kurdish separatists raid a Turkish village near the Syrian border, killing 31; similar attack 7/8 in same area kills 28. Twenty-five Turkish villagers are killed in Siirt province 8/20 by Kurdish guerrillas.

JULY 20. UN Security Council unanimously approves Resolution 598, calling for a cease-fire in Iran-Iraq war. Iraq 7/21 declares its reaction "positive"; Iran calls resolution a "vicious American diplomatic maneuver." USSR and China refuse to support proposed arms embargo against violators of the resolution.

JULY 22. Three US warships escort 2 reflagged Kuwaiti oil tankers into Persian Gulf, in first test of reflagging program. Tanker *Bridgeton* hits a mine 7/24, causing slight damage. US Defense Secretary Caspar Weinberger 7/29 orders 8 minesweeping helicopters to the Persian Gulf. US diplomats 7/30 ask West Germany, Britain, France, the Netherlands and Italy to send minesweeping equipment.

JULY 31. Iranian pilgrims in Mecca riot, clash with Saudi police; 402 are killed, including 275 Iranians, 85 policemen and 42 pilgrims of other nationalities. Saudis 8/1 claim deaths resulted from stampede of rioting Iranians; Iran claims police provoked Iranians and shot them with machine guns. Rioters in Tehran sack Saudi and Kuwaiti embassies 8/1. Arab rulers and US State Department support Saudis in announcements 8/2–3.

AUG. 4–7. Iran holds naval maneuvers in Iranian territorial waters and wartime "exclusion zone" in Gulf, allegedly involving the training of sailors in suicide missions on speedboats loaded with explosives.

AUG. 8. US Navy fighter plane fires 2 missiles at an Iranian fighter which had approached it aggressively over the Gulf. The Iranian fighter is not hit.

AUG. 12. Britain and France agree to send minesweepers to the Persian Gulf; each country emphasizes that its minesweepers will lend assistance to only its own vessels.

SEPT. 4. Long-range surface-to-surface missile strikes southwest coast of Kuwait, damaging houses and industrial facilities, narrowly missing an oil refinery. Kuwait 9/5 accuses Iran of firing missile from Iranian-occupied Fao peninsula, expels 5 of 7 Iranian diplomats in Kuwait. Iraqi planes 9/9 bomb 13 Iranian cities in a "day of revenge."

SEPT. 6. In Turkish referendum, 50.24% vote to allow over 200 politicians to resume political activity, from which they were banned under 1982 military constitution; those banned included 2 former prime ministers, Bulent Ecevit and Suleyman Demirel.

SEPT. 7. Alfred Schmidt, held by kidnappers in Lebanon since 1/13, is freed. West German Foreign Minister Hans Dietrich Genscher 9/8 publicly thanks Syria and Iran for their help in freeing Schmidt.

SEPT. 11. UN Secretary General Javier Pérez de Cuéllar arrives in Tehran on peace-seeking mission; 9/12–13 holds talks with Iranian leaders on Resolution 598, which calls for negotiated end to Iran-Iraq war. Iran 9/13 says it will accept resolution if UN officially identifies Iraq as war's aggressor. Pérez de Cuéllar travels to Iraq 9/13–15; Iraq says it will accept resolution if Iran agrees to it without amendment.

SEPT. 15. Italy dispatches small fleet to aid Gulf minesweeping operations. Two Dutch minesweepers sail for Gulf 9/21, and Belgium same day announces it will send 2 minesweepers and a support ship. By 7/30, 70 naval vessels from US, USSR, Britain, France, Italy, Netherlands and Belgium are in or approaching the Gulf, forming largest international fleet assembled since Korean War.

SEPT. 21. US helicopter attacks an Iranian amphibious landing vessel that was allegedly laying mines in the Gulf, killing 5 Iranians and wounding 4. US warships 9/22 rescue 26 Iranian crewmen from disabled vessel and discover 10 mines on board.

— Iranian gunboat fires over a dozen rockets at British-registered tanker *Gentle Breeze*, killing one crewman and wounding 33. British Foreign Minister Sir Geoffrey Howe tells UN General Assembly 9/23 that he joins US call for arms embargo against Iran, and announces closing of an Iranian arms procurement office in London.

SEPT. 27. Tunisia's state security court condemns 7 members of fundamentalist Islamic Tendency Movement to death and sentences 69 others to prison for plotting

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overthrow of President Habib Bourguiba in connection with 8/3 bombing of 2 tourist hotels. Thirty-seven defendants are sentenced in absentia; 2 of condemned are hanged in Tunis 10/8.

SEPT. 28. Mehdi Hashemi, assistant to Ayatollah Hussein Ali Montazeri, designated successor to Iranian leader Ayatollah Ruhollah Khomeini, is executed for "corruption on earth," including murder, kidnapping, torture, arms smuggling, setting up a private militia and plotting to overthrow the government.

OCT. 2. Tunisian President Bourguiba removes Prime Minister Rachid Sfar from office and replaces him with Gen. Zine el-Abidine Ben Ali.

OCT. 5. Egyptian President Mubarak, running unopposed, is reelected to a 2nd 6-year term.

OCT. 8. US helicopters attack 4 Iranian patrol boats in the Gulf after they fire on a US surveillance helicopter. One Iranian boat is sunk and 2 are disabled and seized; 2 Iranians die, 6 are reported missing.

— White House agrees to cancel plans to sell 1,600 Maverick antitank missiles to Saudi Arabia in a compromise with congressional critics that allows sales to the Saudis of $1-billion worth of other arms, including 12 F-15 fighter aircraft.

OCT. 16. Iranian Silkworm missile strikes US-flagged tanker in Kuwaiti waters, injuring 18 crewmen; US destroyers 10/19 bomb Iranian offshore oil rig which US claims is gunboat base. A Kuwaiti offshore oil terminal is seriously damaged by Silkworm missile 10/22, but Iran does not claim responsbility.

OCT. 21. US Senate passes resolution calling on President Reagan to report to Congress within 30 days on his Gulf policy.

OCT. 26. President Reagan bans by executive order all imports from Iran and adds several product categories to US list of militarily useful items barred from export to Iran.

OCT. 31. Syrian Prime Minister Rauf al-Kassem resigns after the parliament accuses 4 of his cabinet members of incompetence in economic affairs. President Assad 11/1 names Parliament Speaker Majmoud Zubi prime minister.

NOV. 2. US warship opens fire on unarmed Arab fishing boat, mistaking it at night for an Iranian gunboat. An Indian crewman is killed; US expresses regret 11/4.

NOV. 7. Prime Minister Ben Ali of Tunisia removes President Bourguiba from office, saying the Tunisian leader had become senile. Ben Ali becomes president the same day, and 11/10 appoints Hedi Baccouche premier.

NOV. 8. Emergency Arab League summit is convened in Amman, Jordan; unanimously passes resolution 11/11 condemning Iran's continuation of Gulf war and expressing support for Iraq. Final declaration passed 11/11 allows any League member to restore diplomatic relations with Egypt. Iraq and United Arab Emirates restore ties to Egypt 11/13.

NOV. 25. A Palestinian guerrilla flies a motorized hang glider from Lebanon into Israel, enters an Israeli army camp and shoots 6 soldiers to death before being killed.

NOV. 27. Jean-Louis Normandine and Roger Auque, French journalists, are freed by Revolutionary Justice Organization in Lebanon; had been held hostage since 3/86 and 1/87, respectively. Wahid Gordji, blockaded since 7/1 in Paris Iranian embassy, is brought before French magistrate 11/29; no charges are made. Gordji is flown same day to Tehran, traded for French consul Paul Torri. After exchange, 40 Iranian diplomats in Paris and 8 French diplomats in Tehran are allowed to return home. US and Britain criticize suspected Iranian-French deal 12/1.

NOV. 29. In Turkish general elections, Motherland Party of Prime Minister Turgut Özal captures two-thirds of parliamentary seats.

DEC. 9. Israeli troops in Gaza Strip shoot and kill Arab teenager protesting a 12/8 car accident in which 4 Arabs were killed. Unrest spreads to West Bank 12/10. After 2 weeks of rioting, death toll among protesters has risen to 21. Arabs in Israel and occupied territories stage general strike 12/21. US 12/22 criticizes "excessive use of live ammunition" by Israeli security forces; abstains in UN Security Council vote deploring handling of protests. Israeli troops and police 12/23–25 arrest over 1,000 suspected of involvement in riots. Arab lawyers 12/30 announce boycott of military trials of those arrested in occupied territories.

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DEC. 12. US warship helps rescue crew of Cypriot-flagged oil tanker in Persian Gulf, after tanker was set ablaze in attack by an Iranian gunboat.

DEC. 26. Leaders of Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and United Arab Emirates meet in Riyadh, Saudi Arabia, to discuss Iran-Iraq war and attacks on Persian Gulf shipping.

SOUTH ASIA

JAN. 1. Afghanistan's Communist leader Najibullah announces cease-fire in war with Muslim rebels, to begin 1/15. Soviet Foreign Minister Eduard Shevardnadze and Central Committee Secretary for International Affairs Anatoly Dobrynin visit Afghanistan 1/5–7, support cease-fire. Rebels 1/6 demand direct negotiations with USSR, instead of "puppet" government. Najibullah 1/14 offers coalition government, declares general amnesty, supports religious freedom.

JAN. 20. Foreign Minister A. P. Venkateswaran resigns after being publicly slighted by Indian Prime Minister Rajiv Gandhi.

JAN. 23. India places army, air force on maximum alert, citing Pakistani military buildup along border in Punjab and Kashmir regions. India 1/24 requests talks to ease tensions; Pakistani Prime Minister Mohammad Khan Junejo accepts 1/25. Talks between foreign ministers convene in New Delhi 1/31; India and Pakistan 2/19 complete withdrawal of 150,000 troops from border. Pakistani President Zia ul-Haq visits India 2/21–22, meets with Prime Minister Gandhi.

JAN. 24. Indian Finance Minister Vishwanath Pratap Singh is forced by Prime Minister Gandhi to move to Defense Ministry; Gandhi resigns his defense portfolio, becomes minister of finance. Singh had aggressively pursued crackdown on tax offenders; his replacement is widely believed engineered by business interests.

FEB. 6. Sri Lanka's army launches campaign against Tamil rebel strongholds on Jaffna Peninsula. Twenty-eight villagers are killed 2/7 by Tamil terrorists. Sri Lankan government 2/11 claims to encircle major rebel strongholds. Indian Prime Minister Gandhi says he will no longer mediate in Sri Lankan conflict, demands end to Sri Lankan embargo of fuel from Jaffna.

FEB. 9. Afghan guerrillas near city of Khost shoot down government transport airplane with US-made Stinger antiaircraft missile, killing all 37 on board.

FEB. 16. Former guerrilla movement Mizo National Front wins state assembly elections in India's new state of Mizoram. Mizoram and Arunachal Pradesh, a former Indian territory claimed by China, officially attain statehood 2/20.

FEB. 26. Afghan warplanes bomb 2 Pakistani villages southwest of Islamabad, killing at least 90 and wounding over 200. Pakistan 3/22 claims that Afghan planes bombs 2 more villages, killing 85 and wounding 123.

MAR. 23. Three Indian states (West Bengal, Kerala, and Jammu and Kashmir) hold state assembly elections. In Kerala and West Bengal Communist-led Left Democratic Front wins majorities; seen as setback for Gandhi, who campaigned vigorously for Congress (I) party candidates.

— President Zia acknowledges Pakistan has capability to build nuclear bomb, in interview published 3/30 in *Time* magazine.

APR. 12. Indian Defense Minister Singh resigns because of uproar over his investigation of arms procurement corruption alleged to have occurred while Prime Minister Gandhi held defense portfolio.

APR. 17. Tamil guerrillas ambush Sri Lankan civilian bus and truck convoy northeast of Colombo, killing 127, wounding 64. Bomb explodes 4/21 in Colombo bus station, killing 110, wounding 200. Sri Lankan jets 4/22 attack bases of 2 Tamil separatist guerrilla groups, killing or wounding about 80, according to government.

APR. 27. Afghan government, celebrating 9th anniversary of Communist rule, acknowledges failure of cease-fire with rebels, accuses US of intervention in its internal affairs.

APR. 29. Afghan government claims to shoot down Pakistani F-16 jet fighter over Afghan territory. Pakistan asserts jet downed over Pakistani territory.

MAY 11. Indian government imposes direct rule on Punjab state, accusing moderate Sikh state government of failing to counter separatist violence. Prime Minister Gandhi 5/12 sends 5,000 paramilitary policemen to Punjab.

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MAY 23-JUNE 23. Battle near Kandahar, Afghanistan, kills at least 150 rebels; Soviet and Afghan army casualties reported to run even higher.

JUNE 2. Forty bus passengers, including 30 Buddhist monks, die in Tamil guerrilla attack in southern Sri Lanka.

JUNE 3. Nineteen Indian fishing boats seek to deliver food, medicine to Tamils on Jaffna Peninsula, under siege by government for 5 months; flotilla is turned back by Sri Lankan naval vessels. Indian government planes 6/4 parachute 25 tons of food and medicine into Tamil strongholds. Sri Lanka informs India 6/10 its drive on Jaffna Peninsula has been called off.

JUNE 5. Prime Minister Gandhi orders investigation into allegations that Indian officials accepted bribes in late 1986 to facilitate $1.3-billion deal between India and Swedish munitions company Bofors.

JUNE 11. Landmine explodes under bus on Jaffna Peninsula, killing 3 government soldiers and 10 Tamil rebel prisoners being returned to homes after detention; 18 Sri Lankan Muslims are killed when explosion destroys a bus.

— Kabul radio claims guerrillas have shot down troop transport plane with a Stinger missile, killing 53 of 55 on board.

JUNE 14. Two Sikh terrorists open fire at child's birthday party in New Delhi, killing 12. Fourteen are killed in other incidents in Punjab state. 71 are killed 7/6–7 in 3 Sikh terrorist raids on buses in Punjab and Haryana.

JUNE 15. Sri Lanka and India agree that India may ship civilian supplies to Tamils on Jaffna Peninsula so long as Sri Lanka inspects the goods and oversees distribution. Sri Lankan President Julius Jayewardene and cabinet meet with Indian ambassador 7/16–23 to negotiate peace plan.

JUNE 18. Opposition coalition defeats Congress party in Haryana state assembly elections, party's 6th loss in last 7 state elections. Winning populist alliance accused central government of corruption.

JUNE 25. Indian paramilitary troops raid Sikh Golden Temple in Amritsar, Punjab; detain over 250 people suspected of terrorist activity.

JULY 13. Indian Parliament and state assemblies elect as president Prime Minister Gandhi's favored candidate, Vice President Ramaswamy Venkataraman. Gandhi 7/15 expels from Congress party 3 leaders known to oppose him; 7/19 expels from party former Minister of Finance and Defense Vishwanath Pratap Singh. Arun Singh, minister of state for defense research who argued for tougher investigation of Bofors bribery scandal, resigns 7/19.

JULY 14. Two car bombs in Karachi kill 72, wound up to 300; President Zia 7/15 claims bombs are attempt to force Pakistan "to change its Afghanistan policy."

JULY 20. Afghan leader Najibullah visits Soviet General Secretary Gorbachev. Najibullah announces that Soviet troop withdrawal from Afghanistan can begin only after "all outside aggression" stops; says government is willing to share power with opposition political groups.

JULY 26. President Jayewardene of Sri Lanka and Prime Minister Gandhi of India sign agreement in Colombo designed to end rebellion of Sri Lankan Tamil minority: 3,000 Indian peacekeeping troops to be deployed on Jaffna Peninsula; cease-fire to begin 7/31; Sri Lankan army to return to barracks 8/2; Tamil rebels to surrender arms 8/3, and government to declare amnesty. Sri Lanka agrees to set up de facto Tamil homeland in Northern and Eastern provinces, and to provide for 12/87 elections of autonomous government. News of accord provokes rioting among Sri Lanka's Sinhalese majority 7/28–29; some 40 die in riots in Colombo.

AUG. 18. Sinhalese terrorist tosses grenade inside Sri Lankan Parliament, killing a member and wounding minister of national security, Lalith Athulathmudali.

SEPT. 7. Pakistani, Afghan representatives meet separately with UN mediator Diego Cordovez in Geneva, discuss timetable for Soviet troop withdrawal. Afghanistan offers 16-month timetable; Pakistan demands 8-month schedule; negotiations conclude 9/10 with no agreement.

SEPT. 23. India announces it will increase peacekeeping force on Sri Lanka to 20,000 troops in response to Tamil guerrilla infighting.

— Pakistani troops attempt unsuccessfully to dislodge Indian forces from strategic glacier in disputed area of Kashmir. Indian officials report 150 Pakistani soldiers killed, but do not release Indian casualty figures. Pakistan makes no report.

OCT. 6–7. Tamil guerrillas kill about 175 Sinhalese in Sri Lanka's Eastern province. Eight thousand Indian troops 10/10–25 battle 2,500 Tamil guerrillas in

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and near Jaffna City. Indian forces capture Jaffna 10/25, report cumulative battle deaths of 169 Indians, 670 Tamil rebels.

OCT. 20. Three Sikh militants kill 11 in New Delhi shooting incident. Indian police raid Golden Temple in Amritsar 10/21 and 10/24 to dislodge Sikh terrorists.

NOV. 9. Thirty-two killed, 100 injured, by bomb in Colombo. Indian forces kill 36 Tamil guerrillas near Jaffna City 11/10–11. A mine exploded by Tamil guerrillas 11/12 kills 25 bus passengers.

NOV. 10. Thousands demonstrate in Dhaka, Bangladesh, against President Hossain Mohammad Ershad, charging government corruption and vote fraud. In 3 days of rioting, at least 6 people are killed by police. Emergency rule imposed 11/27; Ershad 12/6 dissolves Parliament; promises 12/7 to hold parliamentary elections within 3 months. Rioting during 8-hour nationwide strike 12/29 injures 30.

NOV. 12. Sri Lankan Parliament passes 2 bills granting limited autonomy to Tamil majority in Northern and Eastern provinces.

NOV. 30. Afghan President Najibullah proposes Soviet troop withdrawal from his country within 12 months if US stops supplying aid to Afghan rebels.

— Pakistan holds local elections; candidates unofficially backed by governing Pakistan Muslim League do well throughout country; those backed by opposition Pakistan People's Party are badly defeated in Punjab region, do well only in Sind province.

DEC. 19. Afghan government and Soviet troops begin battle to break rebel siege of Khost, 21 miles west of Pakistani border; government 12/28 says it has killed 1,603 rebel soldiers; rebel leaders deny claim. Government asserts 12/30 that 155-truck convoy reaches Khost.

DEC. 23. Sinhalese extremists assassinate Harsha Abeywardene, chairman of Sri Lanka's governing United National Party.

DEC. 27. Shoot-out between Tamil rebels and police in Batticaloa, Sri Lanka, kills 25, including 18 unarmed civilians.

EAST ASIA AND THE PACIFIC

NORTHEAST ASIA

JAN. 20. South Korean Home Affairs Minister Kim Chong Hoh and national police chief Kang Min Chang are dismissed in attempt to diffuse furor over 1/14 death of a student, Park Chong Chol, while in police custody.

JAN. 27. US and Mongolia establish diplomatic relations.

MAR. 6. US Secretary of State George Shultz meets with South Korean President Chun Doo Hwan in Seoul. Chun reportedly assures Shultz that he will go through with plans to step down in 2/88.

APR. 8. Kim Dae Jung and Kim Young Sam, unofficial leaders of opposition New Korea Democratic Party, leave to form new party, charging elements of NKDP have fallen under influence of South Korean government. They form Party for Reunification and Democracy 4/13; new party 5/1 selects Kim Young Sam as leader.

APR. 13. South Korean President Chun orders halt to all debate over constitutional reform until after 1988 Summer Olympic Games are held in Seoul. He repeats pledge that a new leader will be chosen in 1987 under existing indirect electoral college system.

APR. 23. High-level Japanese economic advisory panel chaired by Haruo Maekawa issues 2nd annual report, calling for Japan to shift from reliance on exports, and to reduce its huge trade surplus.

— In a severe parliamentary defeat, Japanese Prime Minister Yasuhiro Nakasone, to end 3-day filibuster, withdraws unpopular proposal for a new sales tax; proposal is officially dropped 5/12.

APR. 29. Prime Minister Nakasone arrives in Washington; meets with President Reagan 4/30–5/1. They pledge to reduce "politically unsustainable" US-Japan trade imbalance.

MAY 15. Japan's Foreign Ministry, acting on suspicions that Toshiba Machine Co. sold sensitive technology to USSR, forbids company from selling anything to USSR or 13 other communist-bloc nations for one year. Two company executives are arrested 5/28, charged with selling computer program for milling submarine

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propeller blades in 6/84. Tools for propeller blade manufacture also reported sold to Soviets, beginning 12/82.

MAY 26. In attempt to stop protests against 1/14 death of a student activist, President Chun of South Korea forces resignation of Prime Minister Lho Shin Yong and Deputy Prime Minister Kim Mahn Je. Director of National Security Planning Agency, minister of justice and head of Legislative Administration Agency are also forced to resign.

MAY 29. Japanese government approves $43-billion program to stimulate economy and ease trade frictions with US, including increased public works spending, tax cuts, reduced interest rates and easier terms on housing loans.

JUNE 2. South Korean President Chun chooses Roh Tae Woo, chief of ruling New Democratic Party, to succeed him. NDP formally endorses Roh's nomination 6/10.

JUNE 9. Worst antigovernment street protests in Seoul in years break out, national state of emergency is declared. Students 6/10 occupy plaza outside Roman Catholic cathedral; 3,800 reported arrested in nationwide protests. After 5 days of student rioting and mass protests, police 6/14 withdraw from Seoul streets, allow students to leave cathedral. Police 6/15 fire tear gas into peaceful rally of office workers. Thousands of students riot in Seoul 6/18 in year's worst single day of disorders. President Reagan is reported 6/18 to have sent a letter to President Chun, urging resumption of discussions with opposition.

JUNE 17. Roh Tae Woo meets with President Chun; Roh is reported ready to meet with opposition leaders.

JUNE 19. Japanese investigators say faulty repairs by Boeing Co. caused 1985 crash of Japan Air Lines jet that killed 520. Boeing, in statement released in Tokyo, accepts investigators' findings.

JUNE 24. President Chun of South Korea meets with opposition leader Kim Young Sam 6/24, agrees to Kim's demands that talks on political reforms be reestablished and that Kim Dae Jung be released from house arrest. Kim Young Sam 6/25 rejects Chun's offer because Chun did not agree to electoral reforms or restoration of Kim Dae Jung's political rights. Kim Dae Jung is released from house arrest 6/25. Riots occur 6/26 in Seoul and 30 other cities; Kim Dae Jung is returned to house arrest.

JUNE 29. Roh Tae Woo expresses support for direct elections for next South Korean president, also proposes election laws promoting free campaigns, restoration of political rights of Kim Dae Jung. Roh says if his proposals are not accepted by NDP he will resign from presidential candidacy. South Korean police 6/30 announce end of state of emergency.

JUNE 28. US Secretary of Defense Caspar Weinberger begins 2 days of talks with officials in Tokyo; Weinberger 6/29 reports telling officials both nations' security was undermined by Toshiba's sale of advanced technology to USSR.

JULY 1. South Korean President Chun approves sweeping democratic changes, including direct presidential elections. Chun also agrees to restore political rights to Kim Dae Jung, give local governments more autonomy and strengthen human rights guarantees. Government 7/9 restores political rights to 2,335 former political prisoners, including Kim Dae Jung.

— Chairman and president of Toshiba Corporation resign in scandal over subsidiary Toshiba Machine Co.'s sale of technology to Soviets.

JULY 4. Five policemen are convicted and given sentences ranging between 5 and 15 years in connection with 1/14 death of South Korean student Park Chong Chol.

JULY 9. Up to one million demonstrate in Seoul, protesting 7/5 death of Lee Han Yol, student struck with police tear gas canister in a 6/9 demonstration. Lee's burial in Kwangju attended by 200,000.

JULY 28. Fifteen thousand workers at Hyundai Heavy Industries Co. shipbuilding plant in Ulsan, South Korea, go on strike demanding better working conditions, higher wages and more power for their newly formed union. Hyundai agrees to recognize union 8/19, after national government intervention on behalf of the workers.

AUG. 3. South Korea proposes opening general negotiations with North Korea to discuss humanitarian, economic and political issues. North Korea accepts the offer, but insists US must participate in any talks on troop reductions.

AUG. 31. Representatives of South Korea's governing and opposition parties,

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who began meeting 7/21, agree on draft of new constitution, calling for direct presidential elections, presidential term of 5 years, rescinding of presidential powers to dissolve National Assembly, military neutrality in politics, and legal rights such as habeas corpus. National Assembly approves new constitution 10/12, voters approve it in referendum 10/27.

SEPT. 14. Roh Tae Woo visits President Reagan in Washington, DC; White House says meeting is not endorsement of Roh.

OCT. 2. Japan announces it has dropped plans to build "FSX," its own new generation jet fighter, and will instead purchase at least 100 modified American fighter planes. Japanese Defense Agency 10/21 selects American F-16 for purchase.

OCT. 20. Japanese Prime Minister Nakasone chooses former Finance Minister Noboru Takeshita to succeed him as president of governing Liberal Democratic Party, assuring Takeshita of being next prime minister. Japanese Diet elects Takeshita prime minister 11/6.

OCT. 28. South Korean opposition politician Kim Dae Jung announces he will run for president; 10/29 forms Party for Peace and Democracy.

NOV. 16. South Korean President Chun announces that presidential elections will be held 12/16, expresses concern about violence accompanying campaign, places national police on alert.

NOV. 29. Korean Air Lines Boeing 707 jet crashes near Thailand/Burma border, killing 115, while on flight from Baghdad to Seoul. South Korea announces 12/1 it suspects terrorist bombing after man and woman, who were on first leg of journey, take poison when caught traveling under false Japanese passports in Bahrain; man dies but woman survives. South Korean President Chun 12/2 says he suspects North Korean involvement.

DEC. 16. Roh Tae Woo, capturing 37% of votes, wins South Korea's presidential elections over divided opposition candidates, who charge ballot-rigging. US congratulates Roh 12/17, urges opposition acceptance of result. Kim Dae Jung apologizes 12/22 for opposition's failure to field single candidate, but maintains fraud charge. Roh 12/22 promises to resign if he loses public vote of confidence he pledges to hold following 1988 Seoul Olympic Games.

SOUTHEAST ASIA, AUSTRALIA AND THE PACIFIC

JAN. 5–7. Vietnamese and Chinese troops battle along border; Vietnam 1/8 claims to have repulsed Chinese incursion and killed 1,500 Chinese; China 1/10 blames Vietnam for provoking Chinese counterattacks, says 500 Vietnamese were killed.

JAN. 22. Philippine government and communist rebels suspend peace talks indefinitely, although 60-day cease-fire is to remain in effect until 2/8.

— Government troops near Mendiola Bridge in Manila fire into crowd demonstrating for land reform, killing 18 and wounding 96.

JAN. 27. Five hundred rebel soldiers loyal to former Philippine President Ferdinand Marcos storm military bases, broadcasting stations and public utilities in Manila, capturing a private television station. Insurgency ends 1/29 in meeting between Armed Forces Chief of Staff Fidel Ramos, Defense Minister Rafael Ileto and Col. Oscar Canales, the rebels' leader. President Corazon Aquino announces that rebels will be "held to the fullest account."

FEB. 2. Proposed new Philippine constitution is approved by 87% of voters in plebiscite. Constitution grants President Aquino and Vice President Salvador Laurel 6-year terms, to end 6/30/92.

FEB. 17. Vietnam reshuffles top government personnel; 13 cabinet ministers are ousted, leaving untouched only president and premier.

MAR. 2–12. Soviet Foreign Minister Eduard Shevardnadze visits Australia, Thailand, Indonesia, Laos, Cambodia and Vietnam. Assures Australian leaders 3/3–5 that USSR has no ulterior motives for seeking fishing rights from South Pacific island nations. Vietnam pledges 3/12 to seek political solution to war between pro-Vietnamese Cambodian government and Cambodian rebels.

MAR. 18. Bomb explodes at military academy near Manila where President Aquino is scheduled to speak 3/22, killing 4, wounding 38; army dissidents loyal to former President Marcos are suspected. In 3/22 graduation ceremony statement,

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Aquino says peace initiatives have failed, calls for military victory over communist and right-wing terrorists.

APR. 12. In parliamentary elections in Fiji held 4/4–12, ruling Alliance Party is defeated by coalition of Fiji Labour Party and National Federation Party; latter party is considered to represent nation's ethnic Indians.

APR. 18. Thirteen dissident Philippine soldiers attempt to free 42 comrades detained since 1/27–29 aborted coup; the rebels occupy Philippine army headquarters, are soon surrounded by loyal troops, surrender after 8 hours.

APR. 23. Indonesia holds national elections for House of Representatives, provincial and district assemblies; President Suharto's Golkar party takes almost 73% of vote. Islamic-based United Development Party slips to 6% from 27.9% in 1983.

APR. 24. Prime Minister Datuk Seri Mahathir bin Mohamad of Malaysia retains leadership of ruling United Malays National Organization, despite challenge at annual party conference.

MAY 11. Filipinos vote for new Congress; candidates endorsed by President Aquino win 22 of 24 Senate seats and about 160 of 200 elective seats in 250-seat House of Representatives. Supreme Court 8/14 declares former Defense Minister Juan Ponce Enrile victor in his run for Senate, making him one of 2 opposition senators.

MAY 14. Lt. Col. Sitiveni Rabuka and 11 soldiers arrest newly elected Fijian Prime Minister Timoci Bavadra and cabinet, declare military takeover; coup is seen as reassertion of power by ethnic Fijians disgruntled by 4/12 election. Governor General Penaia Ganilau, despite declared opposition to coup, swears in Rabuka as chief of government 5/17; next day calls new government unconstitutional. Bavadra and cabinet are released 5/19; power-sharing arrangement is announced 5/21, with Ganilau official head of government, Rabuka head of army. US, New Zealand suspend aid 5/28.

MAY 19. Australia's Prime Minister Bob Hawke orders immediate closing of Libyan "People's Bureau" in Canberra, accuses Libya of aiming to spread terrorism among Australia's South Pacific neighbors.

MAY 21. Singapore government arrests 16 Roman Catholic church workers alleged to have formed "Marxist conspiracy to subvert the existing social and political system." Government 5/30 arrests opposition politician Joshua Jayaretnam, who protested arrests.

JUNE 4. New Zealand Parliament approves legislation banning nuclear-armed and nuclear-powered ships from visiting country's ports, putting into law government policy adopted nearly 3 years earlier.

JUNE 13. Parliamentary elections, lasting until 7/4, are held in Papua New Guinea. Prime Minister Paias Wingti assembles 5-party coalition 8/4 and is returned to power.

JUNE 16. Foreign ministers of Association of Southeast Asian Nations (ASEAN) member states conclude annual meeting in Singapore with call for political solution in Cambodia and end to influx of refugees from Indochina.

JUNE 18. Vietnamese Premier Pham Van Dong and President Truong Chinh, last of Vietnamese old guard still in power, are ousted in National Assembly vote and replaced by Pham Hung and Vo Chi Cong, respectively.

JULY 1. Two Pacific island groups, Marshall Islands and Federated States of Micronesia, are officially released from US-administered UN trusteeship under which they had been governed since 1947. Both countries retain free association with US.

JULY 11. The Australian Labor Party wins general elections, maintaining parliamentary majority despite opposition criticism of economic austerity program.

JULY 21. President Aquino of Philippines decrees land-reform program to break up large agricultural estates, distribute them among peasant farmers. Aquino says landholders will be compensated for "fair market value" of their estates, leaves most other details to be determined by Congress.

JULY 27. President Aquino, in speech convening new Philippine Congress, calls for more military spending to combat communist rebels, attacks foreign creditors for taking "unfair advantage" of country's troubles.

AUG. 1. US special envoy John Vessey meets with Vietnamese Foreign Minister Nguyen Co Thach in Hanoi; they discuss US soldiers missing in action since Vietnam War. Vessey leaves 8/3, pronounces talks "constructive" but reports little progress.

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AUG. 3. Philippine Local Government Secretary Jaime Ferrer is killed by gunmen in Manila. Ferrer had been publicly marked for assassination by communist New People's Army.

AUG. 14. Philippine President Aquino announces 20% increase in oil import taxes; leftist groups, labor unions protest 8/21–24; Aquino agrees to partially roll back increase 8/25. Thousands of workers protest government economic policies in Manila 8/26.

AUG. 15. In New Zealand parliamentary elections, Prime Minister David Lange is reelected easily to 3rd term, given 15-vote Labour Party majority in Parliament.

AUG. 28. About 1,350 rebel Philippine soldiers, led by Col. Gregorio Honasan, attempt coup in Manila and Cebu City, issue statements accusing Aquino government of lacking "political will." Soldiers attack presidential palace, are repulsed; others capture several television stations, a military base. Rebels take control of Cebu City 8/28. Loyal troops put down revolt 8/29; 12 government soldiers, 19 rebels and 22 civilians die in fighting; Col. Honasan escapes. Former Defense Minister Enrile 8/31 denies connection to revolt, despite previous close ties to Honasan.

SEPT. 13. In referendum, New Caledonia's voters approve remaining "within the French Republic," but most of colony's indigenous Kanaks (43% of population) boycott vote. French Premier Jacques Chirac visits New Caledonia 9/17–18, proposes talks between Kanaks and residents of European heritage.

SEPT. 16. Philippine Vice President Laurel resigns as foreign minister, criticizing President Aquino's anticommunist policy as weak. Aquino dismisses Finance Minister Jaime Ongpin 9/16, and closest adviser Joker Arroyo 9/17. Senator Raul Manglapus is named foreign minister 10/9.

SEPT. 25. Lt. Col. Rabuka leads 2nd coup in Fiji; proclaims republic 10/6. US 10/6 recognizes Governor General Ganilau as Fiji's leader; Australia, New Zealand 10/7 refuse to recognize republic. Ganilau resigns 10/15, ending Fiji's connection with British Crown and Commonwealth. Rabuka steps down as acting head of state and government 12/5, names Ganilau president and Ratu Kamisese Mara prime minister.

OCT. 2. International tribunal orders France to pay environmental group Greenpeace $8.1 million in damages for 1985 bombing of group's ship, *Rainbow Warrior*, prior to scheduled protest against French nuclear tests in South Pacific.

OCT. 27-NOV. 3. Malaysian government arrests 93 opposition political leaders, government critics; government says crackdown is necessary to prevent civil strife between nation's Malay and Chinese communities. Most of arrested are ethnic Chinese, including leader of opposition Democratic Action Party, Lim Kit Siang.

OCT. 28. Three US soldiers, a Philippine businessman are shot to death near Clark Air Force Base in the Philippines. Left-wing National Democratic Front claims responsibility 11/23.

NOV. 15. Second-ranking leader of Philippines Communist Party, Juanito Rivera, is captured in Tarlac province.

DEC. 2. Former Cambodian leader Prince Norodom Sihanouk meets Vietnamese-backed Cambodian Prime Minister Hun Sen at Sihanouk's residence in France, to discuss ending civil war in Cambodia. Talks end without agreement 12/4. Sihanouk announces 12/10 cancellation of planned 1/88 meeting because of government's refusal to include Khmer Rouge and Khmer National Liberation Front rebel groups. Sihanouk announces 12/19 he is again willing to meet with Hun Sen.

DEC. 9. Col. Honasan, leader of 8/28 attempted coup in the Philippines, is arrested in Manila.

DEC. 14. Leaders of ASEAN member states meet in Manila for their first summit in over a decade. Conclude meeting 12/15 with call for cooperation among themselves and end to Vietnamese occupation of Cambodia. Japanese Prime Minister Takeshita 12/15 offers ASEAN nations investments, loans totaling $2 billion.

DEC. 20. Passenger ferry and oil tanker collide off Mindoro Island in the Philippines, causing both ships to sink in flames. Estimates of dead range between 1,600 and 2,000; 26 are rescued.

DEC. 28. Vietnam announces economic reforms that largely abandon centralized planning in favor of decision-making at factory level; plan is to take effect 1/88.

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CHINA AND TAIWAN

JAN. 1. Two thousand students hold rally in Beijing defying new regulations against demonstrations. Communist Party newspaper *People's Daily* attacks trend toward "bourgeois liberalism." Beijing University students publicly burn copies of *People's Daily* 1/5.

JAN. 12. Astrophysicist Fang Lizhi is dismissed as vice president of University of Science and Technology in Hefei for slandering socialist system; Fang is expelled from party 1/19. University President Guan Weiyan also dismissed 1/12. Communist Party expels Marxist theorist Wang Ruowang 1/14 for "major mistakes" in criticisms of party, government corruption. Liu Binyan, influential *People's Daily* journalist, is expelled from party 1/14 for criticizing party, government.

JAN. 16. Hu Yaobang, general secretary of Chinese Communist Party, is forced to resign at meeting of Politburo and other influential party officials, accused of making "mistakes on major issues of political principles." Prime Minister Zhao Ziyang is appointed acting general secretary.

— Sir David Wilson is named governor of Hong Kong to replace Sir Edward Youde, who had died 12/86.

JAN. 26. Chinese state security formally bars Lawrence MacDonald, reporter for Agence France-Presse, from country, charging him with "secret collusion" to gain "intelligence" from student who was arrested 1/25. MacDonald is deported 1/30.

FEB. 28. US Secretary of State George Shultz arrives in Hong Kong; 3/1 begins a 5-day trip to Chinese cities. Deputy Prime Minister Li Peng 3/2 informs Shultz China has no intention of retreating from its opening to the West or its partial adoption of free-market measures. Shultz meets with Chinese leader Deng Xiaoping 3/3.

MAR. 25. Prime Minister Zhao, opening annual session of the National People's Congress, denounces "pernicious influence" of Western cultural and political ideas, but pledges economic initiatives will continue. Congress ends 4/11.

APR. 13. China and Portugal sign agreement to return Portugal's South China colony of Macao to People's Republic in 1999. Macao is to be guaranteed 50 years of noninterference in way of life and capitalist system.

MAY 22. China announces buildup of its forces on Indian border, but denies eyewitness reports of skirmishes there. China 4/22 had charged India with "nibbling" at territory under Chinese control, 5/6 had warned of "an unpleasant event" if India did not withdraw troops from border regions of Arunachal Pradesh and Jammu and Kashmir.

JUNE 23. Taiwan's Yuan (parliament) passes National Security Law in preparation for repeal of martial law in effect since 1949. New law forbids advocacy of communism, prevents former political prisoners from regaining political rights. Martial law is lifted 7/14, allowing formation of new political parties, ending military censorship and trial of citizens by military court.

JULY 1. Seven-year-old speech by Chinese leader Deng Xiaoping, denouncing "feudal" ideas within Communist Party, calling for measure of political change, is printed on newspaper front pages throughout China. *People's Daily* hails speech as "the guiding document for the reform of the political structure."

SEPT. 27. Chinese police arrest 27 Tibetan Buddhist lamas in Lhasa when protest march against Chinese rule turns violent. Police arrest 25–50 lamas in protest march 10/1, riot ensues, up to 10 police and at least 9 demonstrators are killed. Lamas march 10/6, demand release of monks arrested in earlier protests; at least 60 are arrested. US Senate, 98–0, votes to condemn events in Tibet 10/6. China cuts off communications links to Tibet 10/7.

OCT. 5. China shoots down Vietnamese MiG-21 fighter plane that had flown 20 miles into Chinese territory.

OCT. 22. US announces it will not sell certain high-technology products to China in retaliation for China's sale of Silkworm missiles to Iran.

OCT. 25. Thirteenth Communist Party Congress opens in Beijing; Premier Zhao calls for economic reform, openness to foreign investment, civil service examinations. Congress 11/1 chooses Central Committee with over 60 new members. Conservative leaders, including President Li Xiannian, are forced to retire from Central Committee. Deng Xiaoping 11/1 resigns from Central Committee and Politburo, but retains leadership of powerful Central Military Commission. Zhao is

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confirmed as party general secretary 11/2. Central Committee 11/2 elects new Politburo with 7 new members. Central Committee 11/2 also elects a 5-man standing committee, including Zhao, Vice Premier Li Peng.

NOV. 24. Li Peng is appointed to succeed General Secretary Zhao as premier of China.

DEC. 22. US asks 2 Chinese diplomats, a military attaché and a consul in Chicago, to leave country after one is apprehended by FBI in a Washington, DC, restaurant for receiving purported classified National Security Agency documents.

LATIN AMERICA

MEXICO, CENTRAL AMERICA AND THE CARIBBEAN

JAN. 5. Farabundo Martí National Liberation Front rebels attack military base in El Salvador, killing 4 government soldiers and 2 civilians; 22 guerrillas are killed in attack.

JAN. 6. Conservative Salvadoran legislators begin boycott of parliamentary proceedings to force President José Napoleón Duarte to cancel proposed economic austerity program. Conservative businessmen hold one-day strike 1/22. Right-wing National Conciliation Party ends boycott 4/8, but allied Nationalist Republican Alliance refuses to do so.

JAN. 7. Costa Rican Foreign Minister Rodrigo Madrigal Nieto meets in Miami with Assistant Secretary of State for Inter-American Affairs Elliott Abrams and Special Envoy Philip Habib, outlines peace initiatives drafted by Costa Rican President Oscar Arias Sánchez, calling for Nicaragua to hold new elections, agree to a cease-fire and amnesty in war with contras, and sign a regional peace treaty; similar cease-fires and amnesties to be sought between the governments and rebels in El Salvador and Guatemala.

JAN. 9. Sandinista government in Nicaragua adopts new constitution guaranteeing rights to assemble, conduct demonstrations and strikes, and publish uncensored news. But civil rights are immediately suspended, as government renews state of emergency in effect since 1982.

JAN. 19–20. Foreign ministers of Contadora-group countries—Mexico, Venezuela, Colombia and Panama—and their support group—Uruguay, Peru, Brazil and Argentina—undertake mission to Central America, meeting with presidents of Costa Rica, Nicaragua and Guatemala 1/19, and of Honduras and El Salvador 1/20. Mission fails to report progress toward regional peace settlement.

FEB. 15. Presidents of Costa Rica, El Salvador, Guatemala and Honduras discuss Costa Rican President Arias' regional peace plan in San José, Costa Rica, and invite Nicaragua's government to attend a regional conference within 90 days.

FEB. 16. Contra leader Adolfo Calero resigns from United Nicaraguan Opposition (UNO) leadership triumvirate. Arturo Cruz and Alfonso Robelo, more liberal contra leaders, had threatened to resign for weeks, charging Calero had usurped their authority.

MAR. 9. Arturo Cruz resigns from UNO leadership, declaring failure of efforts at internal reorganization.

MAR. 29. Haitians approve, by 99% majority, new constitution guaranteeing right to free education, decent housing and a fair day's pay, and creating obstacles to future dictatorship. Proposed constitution had been approved by Constituent Assembly 3/10.

MAR. 31. Leftist guerrillas in El Salvador severely damage El Paraiso army base, killing 69 Salvadoran soldiers and a US military adviser, Staff Sergeant Gregory Fronius, the first American to die in combat in El Salvador.

APR. 28. American civilian mechanical engineer, Benjamin Linder, is killed in attack by contras in northern Nicaraguan village where he was building a hydroelectric generator; Linder is first US civilian to be killed by contras.

MAY 2. Leftist guerrillas attack main Salvadoran army base at San Francisco Gotera, killing 10 soldiers and wounding 14.

MAY 6. Rival contra leaders agree in Miami to form a new guerrilla organization with a 7-member civilian directorate and single military force to be called the Nicaraguan Resistance Army.

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MAY 12. President Vinicio Cerezo Arévalo of Guatemala visits US, meeting with Secretary of State George Shultz 5/12 and President Reagan 5/13. Cerezo says after meeting that Reagan indicated US aid would be increased in FY 1987 from $2 million to $5 million.

MAY 28. Rafael del Piño Díaz, deputy chief of staff of the Cuban Defense Ministry and former chief of the Cuban air force, flies small plane to Florida with 4 family members, is given asylum.

JUNE 8. Former military commander Col. Roberto Díaz Herrera accuses Panamanian strongman Gen. Manuel Antonio Noriega of involvement in 10/85 killing of a government critic and 1981 plane crash that killed then leader Gen. Omar Torrijos. Police 6/9 clash with students demanding investigation; US 6/9 urges investigation, places US troops in Panama on alert. Panama 6/11 imposes "state of urgency," suspends civil rights. State of urgency is lifted 6/30.

JUNE 19. Bahamanian Prime Minister Lynden Pindling is reelected to 6th term amid accusations of vote-rigging by opposition politicians.

JUNE 29. General strike called in Haiti to protest 6/23 decree by which Lt. Gen. Henri Namphy's governing military council would assume full supervision over upcoming national elections. Namphy 7/1 restores control over elections to independent civilian council; opposition leaders continue to call for Namphy to resign, general strikes continue sporadically. US government says 7/9 it will cut off aid if Namphy government or opposition permits "a perversion of democracy."

JULY 1–2. Government supporters attack US diplomatic buildings in Panama to protest 6/26 Senate resolution calling for free elections; State Department charges Panamanian government with organizing the demonstrations. Business leaders call general strike 7/3–5 in protest of government crackdown; mass demonstrations are banned 7/7; troops prevent planned protest rally 7/10, arresting hundreds. US suspends military and economic aid to Panama 7/23.

JULY 16. Contras attack 3 towns in northern Nicaragua, including San José de Bocay, site of major military base. Nineteen Sandinista soldiers and 4 civilians are reported killed.

JULY 23. At least 225 die in northwestern Haiti in land-reform battle between sharecroppers and peasant protest marchers. At least 8 demonstrators are killed 7/29 when soldiers fire into Port-au-Prince crowd protesting against the *tontons macoutes*, renegade militia of deposed President Jean-Claude Duvalier.

JULY 27–28. Panamanian opposition National Civic Crusade 7/27–28 calls successful general strike. Panama Defense Force troops 7/27 arrest Roberto Díaz Herrera, whose 6/8 allegations set off upheaval; he is sentenced 12/23 to 5 years in prison for crimes against state security.

AUG. 2. Louis Eugène Athis, prospective Haitian presidential candidate, is assassinated with 2 companions at peasants' meeting in town of Leogane.

AUG. 4. Reagan Administration offers peace proposal for Nicaragua designed in cooperation with House Speaker James Wright (D-Tex.). Proposal calls for: immediate cease-fire, with all foreign military support to both sides to stop; restoration of civil rights and open elections; talks among US, Nicaragua, Guatemala, Honduras, Costa Rica and El Salvador; amnesty for contras and guarantee of their "equal rights" in Nicaraguan politics; end to US economic embargo of Nicaragua and military maneuvers in Honduras. Plan threatens resumption of US military aid to contras if no progress is made on proposal by 9/30.

AUG. 7. Presidents of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, meeting in Guatemala City, sign regional peace plan proposed by President Arias of Costa Rica. Plan calls for: timetable for cease-fires in region's guerrilla wars and international verification commission; negotiations with unarmed guerrilla groups; press freedom, free elections and lifting of states of emergency. Plan leaves size and weaponry of each country's military to be negotiated. Contras formally accept plan 8/21, subject to assurance of direct negotiations with Nicaraguan government.

AUG. 13. Salvadoran President Duarte offers to meet 8/15 with leftist rebels. Guerrillas accept 8/14, but Duarte responds they will first have to renounce violence. Rebels 8/17 ambush military convoy, killing 9 soldiers and wounding 21.

SEPT. 20. President Arias of Costa Rica begins 8-day visit to US to promote his Central American peace plan, 9/22 speaks before unofficial gathering of congressmen in House of Representatives.

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— Nicaraguan President Daniel Ortega Saavedra announces that opposition newspaper *La Prensa* can resume publishing immediately, without censorship; publication resumes 10/1. Ortega announces 9/22 that the Roman Catholic Church's radio station may resume broadcasting; it does so 10/2. The US State Department 10/23 pronounces Nicaragua's actions "cosmetic."

OCT. 4. Mexico's president, Miguel de la Madrid Hurtado, announces his choice for ruling Institutional Revolutionary Party's presidential nominee in 1988 elections, Planning and Budget Minister Carlos Salinas de Gortari.

— Leftist Salvadoran rebels open talks with government; they agree 10/6 to form 2 commissions to negotiate peace, but remain far apart on leftist participation in government and withdrawal of foreign military advisers.

OCT. 7. Leftist Guatemalan National Resistance Union begins talks with Guatemalan government representatives in Madrid; talks conclude 10/9 with a communiqué supporting peace and democracy but indicating no progress.

— Nicaraguan government amnesty for contras begins; Sandinista troops withdraw from 1,500 square miles of Nicaragua, leaving territory to contra control, although self-defense peasant militia remains.

OCT. 8. Nicaraguan President Ortega, addressing UN General Assembly, offers to meet President Reagan to discuss peace in Nicaragua, but is otherwise sharply critical of US.

OCT. 13. Costa Rican President Arias is awarded the Nobel Peace Prize.

— Haitian presidential contender Yves Volel is beaten and shot to death outside police headquarters in Port-au-Prince.

OCT. 15. Contras attack 5 Nicaraguan towns, close road connecting Managua and eastern port of Rama. Nicaragua says 44 Sandinista soldiers and 61 of estimated 700 contra attackers are killed.

OCT. 21. Office of Vice President Roderick Lorenzo Esquivel, who criticized the Panama Defense Forces 10/20, is shut down by police. Esquivel 10/21 flees Panama for Nicaragua. Liberal Party pulls out of governing coalition 11/28, saying government had failed to bring about "greater democracy" in Panama.

OCT. 26. Salvadoran human rights activist Herbert Anaya Sanabria is assassinated by 2 gunmen; right-wing death squads are suspected. Leftist rebels 10/29 withdraw in protest from scheduled round of peace talks.

OCT. 27. Salvadoran National Assembly passes amnesty for leftist guerrillas, government soldiers accused of atrocities and rightist death squad members. Exception is made for 1980 killers of Archbishop Oscar Arnulfo Romero, and for those who committed crimes after 10/22 (including killers of Herbert Anaya Sanabria).

OCT. 27–28. Central American foreign ministers meet in San José, announce that each participant in Arias peace plan will present its own plan 11/5 for carrying out terms of agreement.

— Guatemalan Congress passes amnesty for leftist rebels who lay down arms within 180 days.

NOV. 5. Nicaraguan President Ortega announces his government is willing to conduct indirect negotiations, through an intermediary, with the contra leadership.

— Salvadoran President Duarte declares a unilateral cease-fire; leftist rebel groups reject cease-fire. Salvadoran government 11/12–13 frees leftists accused of 1985 restaurant attack that killed 13, including 6 Americans.

NOV. 13. Nicaraguan President Ortega, after 11/12 Washington meeting with House Speaker Wright, offers cease-fire proposal calling for contras to lay down arms by 1/5/88 and take their place in domestic politics; contras 11/19 reject proposal as "propaganda act," offer counterproposal 11/24. Reagan Administration 11/12–13 denounces Wright's involvement; Wright meets with Administration officials at the White House 11/16; Wright and Secretary of State Shultz 11/17 sign pledge to work together on Central American peace.

NOV. 21. Rubén Zamora, exiled vice president of El Salvador's left-wing Democratic Revolutionary Front, returns to El Salvador to test 8/7 peace treaty's call for "national reconciliation." Guillermo Ungo, exiled president of the FDR, returns to El Salvador 11/23.

NOV. 22. Salvadoran President Duarte charges that right-wing political rival Roberto d'Aubuisson is responsible for 1980 assassination of the Salvadoran Archbishop Romero, says d'Aubuisson ordered an associate, Capt. Alvaro Rafael Saravia, to kill Romero. Saravia is arrested 11/24.

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— Nicaragua frees and pardons 985 political prisoners, the majority held as contra collaborators, along with 200 former members of deposed President Anastasio Somoza Debayle's National Guard.

NOV. 26. Presidents of so-called Group of Eight Latin American nations (Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela) meet in Acapulco, Mexico, in first such summit without US participation; discuss region's foreign debt, Central American peace, Cuba's role in Latin America. Final communiqué 11/29 calls for debt relief and dialogue between industrialized and developing countries.

NOV. 29. Lt. Gen. Namphy calls off Haitian presidential voting after election-day attacks on polling places by *tontons macoutes* kill at least 34, wound over 70. Government disbands civilian electoral council; Namphy pledges a new president will be inaugurated 2/7/88. Amid charges government soldiers did nothing to halt attacks, US suspends all "non-humanitarian" aid to Haiti 11/29, along with $62 million in balance-of-payments support and development aid. US government orders nonessential diplomatic personnel out of Haiti 12/4.

DEC. 2. Sandinista and contra representatives meet in Santo Domingo for talks mediated by Nicaraguan Cardinal Miguel Obando y Bravo. Talks break off 12/3 when Sandinistas refuse to accept Obando's cease-fire proposal because it fails to forbid foreign aid to contras.

DEC. 6. Nicaragua shoots down small plane near Costa Rican border; claims American pilot James Jordan Denby, who was captured, is a CIA spy.

DEC. 9. Haitian government announces presidential elections will be held 1/17/88. New civilian electoral council is sworn in 12/12. Government 12/19 announces law barring independent observers from polling stations and allowing government officials to examine ballots.

DEC. 10. Former top aide to Nicaraguan Defense Minister Humberto Ortega Saavedra, Roger Miranda Bengoechea, who defected to US 10/25, tells reporters Sandinistas plan to defeat contras by 1990 and continue military buildup thereafter; says USSR plans to send jet fighters to Nicaragua despite Central American peace accord. Defense Minister Ortega 12/12 says Nicaragua refuses to renounce "modern armaments" and plans to build total military strength to 600,000 men by 1995.

DEC. 20. Contras launch largest offensive in 7-year war against Sandinistas; 2,000–3,000 contras attack, temporarily capture 3 remote gold-mining towns; fighting continues along strategic Rama Road 12/21. Truce discussions begin 12/21 in Santo Domingo, are cancelled indefinitely 12/22; each side blames other. A 48-hour Christmas truce begins 12/24.

DEC. 30. Salvadoran government grants amnesty to 2 national guardsmen convicted of 1/81 killing of 2 American agricultural advisers.

SOUTH AMERICA

JAN. 8. Argentine human rights groups file over 1,000 criminal charges against some 650 persons for torturing and murdering prisoners during the "dirty war" period of military rule in late 1970s and early 1980s.

JAN. 16. Soldiers seize Ecuadoran President León Febres Cordero and some 30 staff members, release them 12 hours later after Febres Cordero agrees to free Air Force Gen. Frank Vargas Pazzos, who had 3/86 seized 2 air force bases, demanding resignation of 2 government defense officials.

FEB. 1. Brazil's National Congress convenes to write a new constitution.

FEB. 4. Drug trafficker Carlos Enrique Lehder Rivas is captured in shoot-out in northwestern Colombia, is flown to Florida 2/5, accused of smuggling billions of dollars worth of cocaine into US. Lehder's trial opens 11/16.

FEB. 5. Brazilian government ends 12-month price freeze (except for food prices) because freeze was feeding pressures for inflation.

FEB. 12. Premier Pretaapnarain Radhakishun of Suriname is asked to resign by military Supreme Council; 3 other cabinet members resign in solidarity. Shake-up reflects differences within government over conduct of civil war against rebels led by renegade soldier Ronny Brunswijk.

— Chile announces that 390 political exiles will be allowed to return to the country, in addition to 618 allowed to return in 1986.

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FEB. 13. Peruvian police raid 3 Lima universities searching for leftist guerrillas, arrest 793 suspected of terrorist links. Students protesting police action riot 2/18.

MAR. 5–6. Strong earthquakes in northeastern Ecuador kill at least 1,000, leave over 30,000 homeless and damage a pipeline, forcing halt in oil exports. President Febres Cordero 3/14 announces suspension of payments on Ecuador's $8.3-billion foreign debt for rest of 1987; implements austerity program.

MAR. 18. *La Epoca* becomes first opposition newspaper allowed to be published in Chile since 1977.

MAR. 31. Pope John Paul II, en route to a tour of Uruguay, Chile and Argentina, labels Chilean government "dictatorial; Chilean police 4/3 battle antigovernment protesters at Santiago papal mass attended by over one million.

APR. 8. President Alfredo Stroessner allows 33-year-old state of siege in Paraguay to lapse, but 7 opposition politicians are arrested 4/13 for meeting without a permit.

APR. 15. Ernesto Guillermo Barreiro, Argentine army major accused of abuse of political detainees in 1976–83, refuses to appear before civilian court, takes refuge at military base in Córdoba. Officers there refuse to arrest Barreiro; demand amnesty for "dirty war" offenders, replacement of Armed Forces Chief of Staff Gen. Héctor Ríos Ereñú. President Raúl Alfonsín 4/16 refuses to negotiate with rebels. Army 4/17 declares loyalty, surrounds Campo de Mayo army base near Buenos Aires, occupied by rebellious officers. Barreiro flees into hiding 4/17. Alfonsín 4/19 persuades Campo de Mayo rebels to surrender, declares "the house is in order"; government announces Ríos Ereñú and 44 allied officers will retire or be dismissed. Alfonsín 4/20 names Gen. José Caridi chief of staff.

APR. 26. Brazilian Finance Minister Dilson Funaro resigns, prompted by slump in foreign exchange reserves and trade balance. President José Sarney names Luiz Carlos Bresser Pereira to succeed Funaro 4/28.

MAY 13. Argentine President Alfonsín introduces congressional bill, known as "due obedience law"; would free hundreds of middle- and lower-ranking officers from prosecution for human rights crimes committed under orders during period of military rule. Congress passes law 6/5; most opposition Peronist delegates boycott vote; Alfonsín signs bill 6/8. Federal court overturns law as unconstitutional 6/12.

MAY 18. Brazil's President Sarney says he is willing to leave office in 1990, a year early, in effort to smother demands for elections even earlier.

JUNE 12. Brazil announces emergency measures to halt raging inflation and pay interest on foreign debt. Called "New Cruzado Plan," package includes wage and price freeze for up to 90 days and 10.5% currency devaluation.

JUNE 15–16. Twelve Chilean leftist guerrillas are shot to death in 4 locations near Santiago in raids by national intelligence police.

JUNE 16. Colombian Revolutionary Armed Forces (FARC) guerrillas ambush military convoy in southeastern Colombia, killing 27 soldiers and wounding 40 others. It is reported 8/7 that 1,600 had died in fighting between Colombian troops and leftist rebels in past year despite formal truce in effect since 1984.

JUNE 25. Supreme Court of Colombia declares unconstitutional 12/86 law restoring 1979 extradition treaty with US.

JUNE 26. Seven leftist opposition parties in Chile join together as the United Left, led by Socialist Party.

JULY 5. President Alan García Peréz of Peru announces measures to revitalize economy: 35% increase in minimum wage, reduction of interest rates; reaffirms policy of limiting Peru's debt payments to 10% of export revenues.

JULY 17. Presidents Sarney of Brazil and Alfonsín of Argentina meet in Buenos Aires, sign package of 10 accords relating to 1986 mutual integration and development pact; agreement provides for a common currency for transactions between Argentina and Brazil.

JULY 21. Ecuadoran military court sentences 17 air force commandos involved in 1/16 abduction of President Febres Cordero to 16-year prison terms, 41 others to terms ranging between 6 months and 8 years.

AUG. 14. Colombian Senator Pedro Valencia Giraldo of leftist Patriotic Union (UP) is assassinated, according to party the 815th victim of a campaign against its members. Colombian government denies involvement, blames peasants angered by terrorist tactics of UP's ally, FARC.

SEPT. 6. In voting to fill half of 245 seats in Argentine Chamber of Deputies,

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governing Radical Civic Union sees its total drop from 130 to 117, but remains largest single party; Peronist Judicialist Party gains 2 seats, to 105.

SEPT. 21. US State Department announces Bolivia will lose $8.7 million in economic and military aid because of failure substantially to reduce its coca crop in first half of 1987.

— Brazil's National Congress makes public a draft constitution, which features parliamentary government, opposed by President Sarney. The draft constitution would give president command of the armed forces and the power to appoint a premier, who would run government.

SEPT. 27. Soviet Foreign Minister Eduard Shevardnadze arrives in Brasília to begin 12-day visit to Brazil, Argentina and Uruguay. Before leaving Brazil 9/30 he signs document calling for arms control, nuclear-free zone in South Atlantic and peace in Central America.

SEPT. 29. Peruvian Congress approves legislation nationalizing private banks and financial institutions; law is signed by President García 10/9. Police 10/14 seize Peru's 2 largest private banks using armored cars and tear gas.

SEPT. 30. Voters in Suriname overwhelmingly approve new constitution, under which civilian government is to be elected to replace military regime of Commander Dési Bouterse. In national assembly elections 11/25, opposition United Front for Democracy and Development receives 85% of ballots; Bouterse's party takes only 9%.

OCT. 2. Six Colombian leftist rebel groups, including FARC and April 19 Movement, unite to form the Simon Bolívar Coordinator; new organization announces it will propose a truce with the government but will not agree to surrender arms.

OCT. 11. The president of Patriotic Union in Colombia, Jaime Pardo Leal, is assassinated near Bogotá. Riots in the Colombian capital 10/11–13 leave 11 dead.

OCT. 14. Argentina imposes wage, price freeze after raising minimum wage 75%; government also devalues currency 11.8% and increases fuel and public utilities prices, in effort to control spending and inflation.

OCT. 28. Ecuadoran workers call general strike, demanding resignation of Interior Minister Luis Robles Plaza, impeached by Congress for alleged police violations of rights of criminals and guerrillas. President Febres Cordero declares state of emergency for 10/28, rescinds it 10/29.

DEC. 18. Brazilian Finance Minister Bresser Pereira resigns after President Sarney 12/17 vetoes tax increase proposed to reduce country's public deficit.

DEC. 20. Paraguay's government releases political prisoner Napoleón Ortigoza Gómez after 25 years in prison, but he is confined to a provincial town for 30 days.

DEC. 31. US State Department denounces the 12/30 freeing from a Bogotá prison of Jorge Luis Ochoa, reputed leader of the Medellín cocaine-exporting cartel, despite efforts to extradite him to the US for trial.

AFRICA

JAN. 3. Chadian government announces recapture of town of Fada in northeast Chad; victory is first north of 16th parallel which marks sector controlled by Libya and pro-Libyan rebels. Libyan warplanes 1/4 bomb 2 southern Chadian towns in area France had agreed to defend. Chadian army downs Libyan MiG-23 over Fada in 1/3–5 battle. French bomb Libyan airfield at Wadi Doum in northern Chad 1/7.

JAN. 4. Rev. Allan Hendrickse, leader of South Africa's mixed race house of Parliament, leads 150 supporters in protest swim at a whites-only beach near Port Elizabeth. After President P. W. Botha threatens to dissolve Parliament, Hendrickse submits letter of apology read by Botha on television 1/21.

JAN. 8. US Secretary of State George Shultz begins 8-day trip to Senegal, Cameroon, Kenya, Nigeria, Ivory Coast and Liberia.

— US State Department issues report claiming that "the ANC [South Africa's black nationalist African National Congress] is deeply beholden to the SACP [South African Communist Party]." Study claims that "roughly half" of ANC's 30-member national executive "are known or suspected SACP members."

— Anti-apartheid activists publish advertisements in 22 South African newspapers calling for legalization of ANC; national police commissioner Johan Coetzee

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responds, tightening censorship regulations, making illegal publication of material tending to "promote the public image" of illegal opposition groups. New rules are invalidated by Supreme Court 1/29; government immediately issues regulation allowing police commissioner to ban "any matter" he chooses, if he feels public security is concerned.

JAN. 28. Oliver Tambo, head of ANC, meets Secretary of State Shultz in Washington, asks US to urge other Western countries to apply economic sanctions on South Africa. Shultz expresses concerns about Soviet influence in ANC.

FEB. 1. Ethiopia's electorate approves by 96% majority new constitution giving the country a one-party communist civilian government.

MAR. 6–13. Northern Nigeria is struck by Muslim-Christian rioting; at least 15 are killed.

MAR. 11. South African Railway and Harbor Workers' Union begins strike in response to state-owned South African Transport Service's refusal to recognize the black union. In week-long series of firebomb attacks beginning 4/13, more than 60 trains are damaged. Six strikers are shot and killed 4/22 in 2 clashes with South African police; 16,000 workers are dismissed for ignoring a court order to end strike.

MAR. 22. Chadian troops recapture Wadi Doum air base in northern Chad. 3,000 Libyan troops 3/25 evacuate nearby town of Faya-Largeau, their last major stronghold in the country.

MAR. 26–27. An estimated 1,500 Dinka refugees are massacred in the town of El Daein in Darfur province, Sudan, apparently in retaliation for an earlier raid by the rebel Sudan People's Liberation Army in which 70 militiamen were killed.

APR. 2. Ian Smith, former prime minister of Rhodesia, is suspended from the Zimbabwean Parliament for one year, after he urged white businessmen in Johannesburg to fight the "blackmail" of international economic sanctions against South Africa.

APR. 11. South African Police Commissioner Coetzee issues decree forbidding protests on behalf of political detainees, including bumper stickers and petitions. Church leaders Dr. Allan Boesak and Archbishop Desmond Tutu hold interdenominational protest service 4/13, attended by US Ambassador Edward Perkins.

APR. 25. South African commandos raid targets in the southern Zambian city of Livingstone, killing 4. Pretoria claims dead were ANC "terrorists," but Zambian officials maintain that victims had no connection to ANC.

MAY 6. In elections to South Africa's whites-only house of Parliament, governing National Party increases its seats by 6, to 123. Far-right Conservative Party wins 22 seats to become official opposition party; liberal Progressive Federal Party wins 19 seats. Over one million blacks stay home 5/6 to protest whites-only vote.

JUNE 3. Rev. Leon Sullivan, whose 1977 code of conduct guided US companies operating in South Africa, says code has failed to undermine apartheid, calls on US companies to end commercial ties to South Africa. Sullivan Code had sought desegregation in workplace, improved black worker training, promotion prospects, health, housing and education.

JUNE 10. South African President Botha extends 12-month-old state of emergency for another year, saying the "background of violence and unrest still exists." The government frees 1,000 detainees 6/12; some had been held up to a year without charges.

JUNE 21. Rebels of Mozambique National Resistance (MNR) attack village in northeastern Zimbabwe, killing 11 villagers, to protest Zimbabwean Prime Minister Robert Mugabe's military support of Mozambican government.

JULY 1. President Ibrahim Babangida announces timetable for Nigeria's transition from military rule to civilian democracy by 1992; plan calls for local nonparty elections in 1987, constituent assembly meeting in 1988, removal of ban on party politics in 1989, census in 1991, and free local, state and federal elections in 1992. Local elections are held 12/12.

JULY 9. Delegation of dissident white Afrikaners organized by Frederick van Zyl Slabbert, former head of South Africa's Progressive Federal Party, travels to Dakar, Senegal, meets with exiled ANC leaders. Slabbert 7/12 reports "extraordinary meeting of minds."

JULY 18. Up to 400 MNR rebels kill 424 people in and around the town of Homoine, Mozambique including many hospital patients. US Assistant Secretary of

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State for African Affairs Chester Crocker 7/22 charges that "South African and private Portuguese elements" are responsible for the rebels' activity.

JULY 25. Chairman of Sudan's Supreme Council, Ahmad Ali al-Mirghani, declares year-long state of emergency, brought on by the country's economic troubles and strikes by public servants and other workers.

AUG. 8. Chad's government reports capture of Aozou strip, last swath of Chadian territory occupied by Libyan troops. Libya recaptures town of Aozou 8/28. Chadian army 9/6 crosses into Libya and attacks Matan as Sarra air base, destroying 26 aircraft and killing (by Chadian accounts) over 1,700 Libyan troops. France shoots down Libyan bomber over the Chadian capital Ndjamena 9/7. Chairman of the Organization of African Unity, President Kenneth Kaunda of Zambia, arranges cease-fire 9/11.

AUG. 9. The black National Union of Mineworkers (NUM) begins strike against South Africa's gold and coal mining industries, demanding higher wages and improved benefits. After 33,000 miners are fired 8/27–28 by Anglo-American Corp., South Africa's largest mine operator, NUM agrees to compromise pay increase 8/30. Explosion 8/31 at gold mine in Orange Free State kills at least 50 miners.

AUG. 21. Zimbabwean House of Assembly, 78–0, votes to abolish 20 seats reserved for whites under 1979 constitution. The white Conservative Alliance of Zimbabwe abstains from vote after approving abolition on first 2 readings.

AUG. 22. Sudan's governing coalition collapses when the Democratic Unionist Party (DUP) withdraws from its alliance with the Umma Party of Prime Minister Sadiq al-Mahdi.

SEPT. 3. Bloodless military coup in Burundi overthrows the president, Col. Jean-Baptiste Bagaza, while he is in Canada attending summit of francophone nations. Maj. Pierre Buyoya takes leadership, 9/5 charges Bagaza with corruption and assuming dictatorial powers.

SEPT. 6. South Africa and Mozambique agree to renew joint security commission established under 1984 Nkomati nonaggression accord. Next day, in Maputo, Mozambique, South African government exchanges 133 Angolan prisoners of war and 2 Europeans charged with security violations for a South African soldier captured by Angola.

SEPT. 9. After delay of nearly a year, US Senate Foreign Relations Committee approves nomination of Melissa Wells to be ambassador to Mozambique; nomination was stalled by Senator Jesse Helms (R-N.C.), who sought US support for MNR guerrillas, but campaign collapsed after 7/18 MNR raid.

SEPT. 25. Prime Minister George Matanzima of South African "homeland" of Transkei is overthrown in coup led by Maj. Gen. Bantu Holomisa, who charges Matanzima with corruption; Stella Sigcau is installed as prime minister 10/5. Sigcau is overthrown in 2nd coup by Holomisa 12/30, and he installs himself in power.

SEPT. 26. Thirteen young members of South African Zulu Chief Mangosuthu Gatsha Buthelezi's organization *Inkatha* are killed by members of rival United Democratic Front (UDF) in Natal province. By late December, 250 are estimated to have died in fighting between the groups in 1987.

OCT. 15. Capt. Thomas Sankara, president of Burkina Faso, is overthrown in military coup led by chief adviser, Capt. Blaise Compaore. Sankara and 12 followers are executed 10/16. Compaore says 10/20 he acted to forestall Sankara's plot to "arrest and execute" opponents in his government.

OCT. 22. Jonas Savimbi, leader of Union for the Total Independence of Angola (UNITA) rebels in Angola, claims his troops have defeated a government offensive along Lomba River, in largest battle yet fought in Angolan civil war. *The Washington Post* 11/2 cites US officials confirming UNITA claim and saying US-supplied TOW antitank missiles and Stinger antiaircraft missiles were instrumental in victory.

OCT. 23. Rebel guerrillas in Ethiopia's Eritrea province attack and destroy UN-sponsored 23-truck convoy carrying nearly 450 tons of wheat to feed starving people in town of Adigrat.

NOV. 2. South Africa raids a South-West Africa People's Organization base in Angola, killing 150 guerrillas. South African Defense Force chief General Jannie Geldenhuys 11/11 says South African paramilitary forces have in recent days battled "surrogate forces" (apparently Cubans and Soviets) who intervened in a battle between UNITA and Angolan government forces.

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Nov. 3. Zulu Chief Buthelezi meets with South African President Botha to launch multiracial Joint Executive Authority for Natal province; body has no legislative or fiscal authority, but is to make recommendations on health services and roads in both Natal and semiautonomous "homeland" of KwaZulu, spread in patches throughout Natal.

Nov. 5. South African government frees Govan Mbeki, ANC activist in prison for 23 years for conspiring to overthrow white minority government. Mbeki refuses to renounce armed struggle or Marxist views. South African government 12/11 restricts Mbeki to Port Elizabeth and bars him from talking to the press.

Nov. 10. President of Niger, Seyni Kountche, dies in Paris of a brain tumor. Armed Forces Chief of Staff Col. Ali Seybou is named acting president.

Nov. 25. UN Security Council unanimously condemns South Africa's "illegal entry" into Angola to combat Angolan and Cuban troops there, and demands it withdraw its troops by 12/20. South Africa lets deadline pass unheeded.

Dec. 14. Kenya charges that Ugandan soldiers had crossed the border into Kenya and engaged Kenyan troops 8 times since 11/19, killing one man. Kenya expels 2 senior Ugandan diplomats 12/18.

Dec. 22. Zimbabwean opposition leader Joshua Nkomo agrees to merge his party with ruling party of Prime Minister Mugabe. Mugabe is inaugurated 12/31 as country's first executive president, combining powers of head of state and government; Nkomo is named one of 2 vice presidents.

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How junk bonds helped provide 50,000 people with a living room and 20,000 people with a living.

They helped by providing Hovnanian Enterprises with the capital they needed to develop affordable family housing. Capital they would've had a hard time getting from commercial banks. Or any place else, for that matter. Because Hovnanian, like 95% of all American companies with annual sales in excess of $25 million, was considered non-investment grade, or "junk," by the major bond rating agencies.

The fact is, without high yield bonds provided by Drexel Burnham, Hovnanian would still be a small, family run construction company. Instead of the second largest developer of for-sale multifamily homes in the country.

To date, Hovnanian has built more than 20,000 condominiums, townhouses and single family homes throughout New York, New Jersey, Florida and New Hampshire. Planned residential communities that have become so synonymous with quality affordable housing that they typically sell out in a single weekend. Making them the envy of the housing industry. Not to mention the place where 20,000 people have made their living. And 50,000 people have made their home.

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For a hungry world, this is a handful of hope.

For much of the world, one of the most devastating dietary problems today is the lack of sufficient protein. At the same time, one of the most obvious solutions is the fast-growing broiler chicken. All it takes to capitalize on that solution is breeding know-how and grain.

Of course, this solution to hunger presupposes that our grain will be affordable. One way to help assure that is through continuing research. The kind that has, in recent years, cut in half the amount of grain needed to produce a pound of meat. The kind that keeps the United States preeminent in areas such as seed development, gene splicing and biotechnology.

Yet the danger is that research monies and programs aren't keeping pace with need. The U.S. federal and state governments, for example, have increased agricultural research outlays by less than 2% annually since 1960. And there's a hesitancy on the part of government to promote the adoption of biotechnology.

If American farmers are going to help the protein-starved world meet its dietary needs and remain competitive too, we'll have to do a lot better than that.

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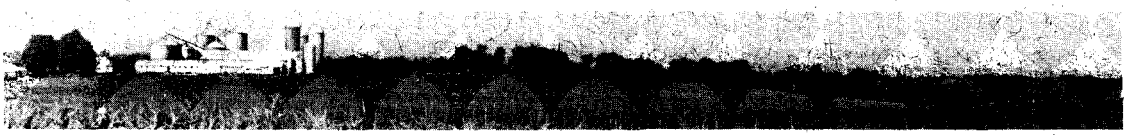

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